

## 2008 Risk and Profit Conference Breakout Session Presenters

### Duane Hund

Since 1985 Duane Hund has served as a farm analyst for the Department of Extension Agricultural Economics and is the coordinator of the program. A major focus of Duane's work is to serve the needs of families referred from the Kansas Agricultural Mediation Service. Recently Duane was a co-investigator on the "Keeping the Family Farming Project", a grant to facilitate and educate families who are entertaining intergenerational transfers of farms and ranches in Kansas. Working with the Finpack software program, Duane helps families develop strategies to improve their profitability and be more competitive. Duane has worked with over 800 Kansas farm families in the past 23 years.

### LaVell Winsor

LaVell Winsor began serving as a Farm Analyst in 2007. A primary focus of her work is to assist families enrolled in the "Keeping the Family Farming" conferences, a grant program funded through the North Central Risk Management Education Center. LaVell also receives referrals from the Kansas Agricultural Mediation Service. Her work centers through the use of the software program called Finpack. Working with individual families LaVell analyzes their businesses in depth to assist in making more profitable decisions. LaVell spent over 10 years working for Cargill as a personal grain marketing manager, and registered Commodity Trading Advisor, before coming to K-State Research & Extension.

## Financial Planning and FINPACK ANALYSIS Duane Hund and LaVell Winsor

Record high grain prices have increased the potential for profit at the same time double digit increases in input costs are eating away at those potential profits. Large losses may result if production falls short of expectations. Livestock profitability must be carefully managed in this era of rapid increases in costs of production. Now more than ever careful financial planning is necessary to analyze risks and plan profitable strategies. "Finpack" analysis will aide in the decision making process. Finpack can also provide key information to operations transferring to the next generation. This presentation will provide information about the Finpack program, the farm analysts who facilitate the analysis and the benefits of long range planning for the farm and ranch business.

## Feasibility and Analyst Program Overview

By Duane Hund  
Kansas State University Farm  
Analyst

## Farm Analyst Team Members

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# FINPACK<sup>®</sup>



A comprehensive whole farm financial planning and analysis system

## Three Basic Questions

- Where am I?
- Where do I want to be?
- How can I get there?

## FINPACK Components

- **FINAN** Annual Financial Analysis
- **FINLRB** Financial Long Range Planning
- **FINFLO** Monthly Cash Flow Planning
- **Annual Plan** Annual Cash Flow Planning

## Business Objectives

- **Profitability** Return to labor, management, and owner's equity
- **Liquidity** The ability to meet financial obligations as they come due
- **Solvency** The relationship between assets owned, debt, and owners equity

## Three Financial Tools

- Income Statement      Profitability
- Cash Flow Statement      Liquidity
- Balance Sheet      Solvency

## FINLRB

- Long range planning for a typical year in the future
- Compare alternative whole farm plans to the current farm operation for:
  - Profitability
  - Debt repayment ability
  - Net worth growth
- Up to 15 alternative plans

## FINLRB

- Financial Long Range Budgeting
- Strategic Planning or “What if” component of FINPACK

## Strategic Planning

- Helps you determine:
  - Where you want to go?
  - Where you are going?
  - How you can get where you want to go?

Doing the Right Thing

Versus

Doing Things Right

Peter Drucker

**Why Invest Time and Effort for Strategic Planning?**

- Agriculture is changing, how will you adapt?

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- Agriculture is changing, how will you adapt?
- Need a plan to get where you want to go
- To determine your position in the industry

## Methods to Improve Profitability

- Improve efficiency (do better at what you are doing)
- Increase volume (get bigger)
- Reorganize the business (change enterprise combination and/or size of enterprises)
- Profit = (Price – Cost) x Volume

## Two Strategies for Agricultural Producers

Commodity  
Strategy

Creative Alternative  
Strategy

Expansion oriented

Niche oriented

Low-cost producer

Unique product

## Components of Strategic Planning

- Determine mission and goals
- Evaluate the external opportunities and threats to the business
- Internally analyze farm's strengths and weaknesses
- Evaluate potential strategies for the farm business
- Develop an implementation plan for selected strategies

## FINLRB's Role

- Evaluate potential strategies for the farm business
- Develop an implementation plan for selected strategies

## Three Basic Questions

- Where am I?
- Where do I want to be?
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## FINLRB

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## Using FINLRB

- Yields and production rates based on past performance
- Long range planning prices
- Income and expenses based on past history (preferable 3 years or more)
- Base plan - long range projection of current operation.
- Be consistent

## Takes Time But Successful Producers Make Time to Think:

- Creatively
- Honestly
- Strategically
  
- FINLRB puts structure to their creative ideas



- marketing expense per head
- List share rental arrangements you have for various farms
    - determine what items the landlord shares in the cost of production

**Cash Flow/Income Statement**

List annual average costs or projections for next year for

- Fuel and oil
- All repairs and supplies
- Hired labor
- General farm insurance (excluding crop insurance)
- Utilities (farm share)
- Custom hire (not listed on crop budgets)
- Real estate taxes (farm share)
- Cash rent for cropland and pasture (list separately)
- Miscellaneous fees (please list)

**Other information**

- Off farm income (gross salary before deductions)
- Family living expense (every dollar spent except those listed for business expenses or principle payments, are dollars spent for personal living)
- Government payments that are "guaranteed" to be paid for those farms enrolled in Farm Agency Service programs. (separate out CRP from annual fixed payments)
- A detailed list of how many acres of each crop you intend to produce broken down into any share arrangements. IE: 200 acres of Wheat @ 60/40  
300 acres of Wheat @ 67/33  
200 acres of Wheat @ 100/0
- Please list the annual numbers of livestock for each intended enterprise

**Useful documents to have on hand and other items**

- Tax returns for last three years (particularly schedule F)
- FSA farm and home plan, if applicable
- Crop insurance information (previous years acreage report and billings)
- Number of acres of each crop and what shares for each crop are planned for the next production year
- Alternatives for discussion and review after producing the current year plan

**Please call if you have further questions.**

Sincerely,

Duane Hund  
 Extension Farm Analyst  
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 Paxico, KS 66526  
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 Email dhund@ksu.edu

**Request for on site visit by Farm Analyst**

**Name:** \_\_\_\_\_

**Address:** \_\_\_\_\_

**Telephone:** \_\_\_\_\_ **home/cell** (please circle)

**Email address:** \_\_\_\_\_

By making this request we understand that there is a charge of \$ . . . . . payable to KSU Extension, to be collected by the analyst the day of the visit.

We further understand that Finpack™ analysis is an option during the analyst visit. We agree to prepare the necessary balance sheet and enterprise budget information prior to the analysts visit so as to utilize the analysts time most efficiently. We also agree to set aside a minimum of 6 hours for the day of the analyst visit to the operation.

The Farm Analyst program agrees to keep all information strictly confidential between the analyst and family members. It is understood that it will be most productive if all family members who are involved with the operation attend the day of the analyst appointment. Farm analysts are open to facilitating communication between all family members, including those not directly involved with the operation.

If additional appointments are needed after the initial visit, the analyst and the family will develop a strategy with associated fees for return visits.

The farm analysts may make appropriate referrals to other experts as agreed upon with the client family.

The family agrees to accept all information provided by the farm analyst as educational and not as direct advice to pursue a specific strategy. The family agrees to consult other experts before initiating new ventures. Other experts may include agricultural lenders, agronomists, accountants and animal scientists among others.

Signed: \_\_\_\_\_