

FARM VIABILITY COHORT

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FARM VIABILITY TRAINING

MODULE 2

INTRODUCTION
TO FINANCIAL
RATIOS

Presented by



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AGENDA

- What are financial ratios
- Why use ratios
- Calculations
- How to compare and interpret
- 4 Farms Case Study





If you can't measure it, you can't improve it.

-Peter Drucker





***Performance metrics are numbers
in context, results related to the
strategic goals of the business.***

-Pearl Zhu



RATIO ANALYSIS

What and Why



- Financial Ratios show the relationship between numbers
- We have a go-to list of key ratios for financial management.
- The metrics that align most closely with strategic goals and financial performance are labeled "Key Performance Indicators" or KPI's

RATIO ANALYSIS

Beware!

- Consistency is key!
- Your categorization of your transactions must be diligently aligned month to month for true comparison.
- Peer groups can use ratios to compare or "benchmark" financials. Why? To inspire sharing of best practices.



METRICS & KPI'S

Why run all metrics?
Why not just KPI's?

- Indicator of business areas that are out of control or not performing to expectations
- Metrics will become the content for client's performance dashboard



KTC'S SMALL FARM RATIOS

Worksheet of Ratios

- Sales per Employee
- Labor as % of Sales
- Gross Margin
- Inventory Turns
- Average Pay per Employee
- \$ of Sales per \$1 of Assets
- Total Sales / Number Employees
- Total Labor \$ / Total Sales
 - with and without owner pay
- Gross Profit / Total Sales
- Gross Profit / Year End Inventory
- Total Labor / Number Employees
- Total Sales / Assets (Equipment)



What other metrics have you found valuable?

Organizational structure and management style are those two factors that we always forget to analyze when the performance of our businesses goes down.

-POOJA AGNIHOTRI





4 FARMS CASE STUDY: GETTING FINANCIALLY NAKED

Roundtable Case Study
with Real Numbers
from Real Farms





4 FARMS CASE STUDY: GETTING FINANCIALLY NAKED

Part 1: Using reports & ratio analysis

Part 2: Diving deeper with benchmarking

4 groups - your farm's case

Group sharing

Benchmarking review

Discussion and integration



OUR INTENT TODAY

- Show the value of financial collaboration
- Practice skills and gain comfort with ratio analysis and benchmarking reports

CASE STUDY

Roundtable Case Study, 4 Groups

- Internal group questions
- Group information sharing
- Financial ranking information
- Moderated Q & A
- Conclusions
- KTC's Take Home Lessons
- Next Steps
- Questions



CASE STUDY

Financials of Four
Real World Farms





ROUNDTABLE CASE STUDY

- Break into 4 groups
- Read your intro
- Review financials, ask 2-3 clarifying questions
- Answer your 4 case study questions and choose a spokesperson from your group

ROUNDTABLE CASE STUDY

Internal Group Questions

- Has the business gotten more efficient year on year?
- Where does the business have the greatest opportunity for improvement?
- What's the most important question you would ask an advisor who knows about this business? What question needs to be asked?
- What's the most important number they need to focus on in the next 12 months?



ROUNDTABLE CASE STUDY

Group Info Sharing



ROUNDTABLE CASE STUDY

Financial Ranking Information

- Why are financial ratios important?
- What can we learn from this exercise about our own business?
- Who do we want to network with and learn from?
- How can we help others?



KEY RATIOS, SORTED



Rank	Farm/ Year	Sales per employee	Farm/ Year	Sales per total acres	Farm/ Year	COGS as % of sales	Farm/ Year	Marketing as % of sales	Farm/ Year	\$ of Sales per \$1 of Fixed Assets
1	#2-18	\$ 49,384	#3-18	\$30,627	#1-17	40%	#2-17	9%	#1-17	\$ 11.56
2	#2-17	\$ 41,841	#3-17	\$27,799	#1-18	38%	#4-17	8%	#2-17	\$ 6.57
3	#1-17	\$ 38,158	#2-18	\$13,169	#4-17	17%	#2-18	4%	#1-18	\$ 6.06
4	#3-18	\$ 26,632	#2-17	\$11,158	#4-18	16%	#4-18	3%	#3-17	\$ 3.66
5	#3-17	\$ 24,173	#4-17	\$6,540	#2-18	12%	#3-18	1%	#3-18	\$ 3.28
6	#1-18	\$ 20,254	#4-18	\$5,572	#3-17	10%	#1-17	1%	#4-18	\$ 1.52
7	#4-17	\$ 19,621	#1-17	\$4,579	#3-18	10%	#1-18	1%	#4-17	\$ 1.51
8	#4-18	\$ 16,715	#1-18	\$2,430	#2-17	6%	#3-17	0.4%	#2-18	\$ 0.40
Rank	Farm/ Year	Labor as % of Sales	Farm/ Year	Sales per acre farmed	Farm/ Year	Gross Margin	Farm/ Year	Repair/Maint as % of expenses	Farm/ Year	OpEx as % of Sales
1	#4-18	53%	#3-18	\$40,835	#2-17	94%	#1-18	15%	#2-17	20%
2	#2-18	52%	#2-18	\$39,507	#3-18	90%	#1-17	8%	#1-17	20%
3	#4-17	45%	#3-17	\$37,066	#3-17	90%	#2-17	4%	#1-18	19%
4	#3-17	41%	#2-17	\$33,473	#2-18	88%	#4-17	3%	#3-18	14%
5	#3-18	41%	#1-17	\$15,263	#4-18	84%	#3-17	3%	#3-17	13%
6	#2-17	26%	#4-17	\$14,015	#4-17	83%	#4-18	3%	#2-18	11%
7	#1-17	18%	#4-18	\$11,939	#1-18	62%	#2-18	2%	#4-17	10%
8	#1-18	7%	#1-18	\$8,101	#1-17	60%	#3-18	2%	#4-18	8%

ROUNDTABLE CASE STUDY

Moderated Q & A

- If your group could ask 2 questions of any other business in the study, what would they be?

Let's answer them and learn!



FINANCIALS - ALL 4 FARMS



PROFIT AND LOSS	2018	2017	2018	2017	2018	2017	2018	2017
	Farm 1	Farm 1	Farm 2	Farm 2	Farm 3	Farm 3	Farm 4	Farm 4
Sales	\$ 121,522	\$ 228,945	\$ 197,537	\$ 167,364	\$ 612,531	\$ 555,983	\$ 83,573	\$ 98,105
- COGS	\$ 45,901	\$ 92,498	\$ 24,464	\$ 10,783	\$ 63,147	\$ 57,876	\$ 13,403	\$ 17,004
Gross Profit	\$ 75,621	\$ 136,447	\$ 173,073	\$ 156,581	\$ 549,384	\$ 498,107	\$ 70,170	\$ 81,101
	62%	60%	88%	94%	90%	90%	84%	83%
- Opex	\$ 23,648	\$ 44,856	\$ 21,040	\$ 33,505	\$ 87,779	\$ 71,336	\$ 6,939	\$ 9,658
----Repairs & Maintenance	\$ 12,277	\$ 12,527	\$ 4,568	\$ 6,290	\$ 8,975	\$ 10,887	\$ 2,384	\$ 3,457
- G & A	\$ 9,449	\$ 25,872	\$ 20,642	\$ 38,640	\$ 12,270	\$ 25,502	\$ 14,449	\$ 23,863
----Marketing	\$ 733	\$ 1,935	\$ 8,443	\$ 14,246	\$ 5,674	\$ 2,434	\$ 2,748	\$ 7,749
- Fixed	\$ 23,789	\$ 21,331	\$ 6,750	\$ 12,992	\$ 16,971	\$ 18,604	\$ 19,320	\$ 20,383
- Labor	\$ 8,091	\$ 41,798	\$ 103,596	\$ 42,715	\$ 252,641	\$ 229,436	\$ 44,236	\$ 43,679
- One Time	\$ 5,428	0	\$ 32,659	\$ 5,330	\$ 30,320	\$ 21,550	0	0
Net Profit	\$ 5,216	\$ 2,590	\$ (11,614)	\$ 23,399	\$ 149,403	\$ 131,679	\$ (14,774)	\$ (16,482)
Net Profit as % of Sales	4.3%	1.1%	-5.9%	14.0%	24.4%	23.7%	-17.7%	-16.8%

BALANCE SHEET	2018	2017	2018	2017	2018	2017	2018	2017
	Farm 1	Farm 1	Farm 2	Farm 2	Farm 3	Farm 3	Farm 4	Farm 4
Total Long Term Debt	\$ 55,110	\$ 36,125	\$ 309,360	0	34,408	15,344	\$ 54,180	\$ 61,163
Assets: Long Term (land and buildings)	\$ 15,218	\$ 14,968	\$ 470,000	0	\$ 147,379	\$ 145,135	0	0
Assets: Short Term (equipment, accounting for depreciation)	\$ 4,843	\$ 4,843	\$ 25,472	\$ 25,472	\$ 39,497	\$ 6,587	\$ 55,068	\$ 65,169
A/P	0	0	0	0	\$ 2,432	\$ 6,188	\$ 1,166	\$ 560
A/R	\$ 6,052	\$ 1,438	\$ 1,230	\$ 895	\$ 5,800	0	\$ 4,269	\$ 2,138
Equity	\$ (111,159)	\$ (89,521)	\$ 182,643	\$ 54,183	\$ 155,836	\$ 130,190	\$ (7,417)	\$ 3,253

FINANCIALS - ALL 4 FARMS



OPERATIONAL DATA	Farm 1		Farm 2		Farm 3		Farm 4	
Years in Business	9		5		25		10	
Total Acres	50		15		20		15	
Vegetable Acres Farmed	15		5		15		7	
Sales Channels/Customers	200 CSA, 3 Markets, 10 Whls		75 CSA, Farm Stand, 3 Markets		150 CSA, 3 Markets, 45 Whls		100 CSA, 1 Market, 5 Whls	
Number Seasonal Employees	4		3		20		4	
Number Non-Seasonal Employees	2		1		3		1	
Land owned or rented?	Owned		Owned		Owned		Rented	
Initial Financing	FSA Loan		Mortgage		self		Self	
Growth Financing	Family		VAPG		self & mortgage		FSA Loans	
Ownership Structure	S corp		Sole Prop		LLC		LLC	

KEY RATIOS	2018		2017		2018		2017		2018		2017	
	Farm 1	Farm 1	Farm 2	Farm 2	Farm 3	Farm 3	Farm 3	Farm 3	Farm 4	Farm 4	Farm 4	Farm 4
Sales per employee	\$ 20,254	\$ 38,158	\$ 49,384	\$ 41,841	\$ 26,632	\$ 24,173	\$ 16,715	\$ 19,621	\$ 16,715	\$ 19,621	\$ 16,715	\$ 19,621
Sales per total acres	\$ 2,430	\$ 4,579	\$ 13,169	\$ 11,158	\$ 30,627	\$ 27,799	\$ 5,572	\$ 6,540	\$ 5,572	\$ 6,540	\$ 5,572	\$ 6,540
Sales per acre farmed	\$ 8,101	\$ 15,263	\$ 39,507	\$ 33,473	\$ 40,835	\$ 37,066	\$ 11,939	\$ 14,015	\$ 11,939	\$ 14,015	\$ 11,939	\$ 14,015
COGS as % of sales	38%	40%	12%	6%	10%	10%	16%	17%	16%	17%	16%	17%
Gross Margin	62%	60%	88%	94%	90%	90%	84%	83%	84%	83%	84%	83%
OpEx as % of sales	19%	20%	11%	20%	14%	13%	8%	10%	8%	10%	8%	10%
Labor as % of sales	7%	18%	52%	26%	41%	41%	53%	45%	53%	45%	53%	45%
Marketing as % of sales	1%	1%	4%	9%	1%	0.4%	3%	8%	3%	8%	3%	8%
Repair/Maintenance as % of expenses	15%	8%	2%	4%	2%	3%	3%	3%	3%	3%	3%	3%
\$ of Sales per \$1 of Fixed Assets	\$ 6.06	\$ 11.56	\$ 0.40	\$ 6.57	\$ 3.28	\$ 3.66	\$ 1.52	\$ 1.51	\$ 1.52	\$ 1.51	\$ 1.52	\$ 1.51

ROUNDTABLE CASE STUDY

Conclusions

What's next?

- How to measure gross profitability across different enterprises and best practices
- Let's discuss employee productivity
- What about assets, debt and the balance sheet?
- New sales opportunities

This is what we see. What do you see? What would you want if this was your group?



TAKE HOME LESSONS

Chart of Accounts Basic Theory

Seven Numbers

- Sales
- Cost of Goods Sold (COGS)
- Labor
- General and Admin (G&A)
- Operating Expenses
- Fixed Expenses
- One-Time Expenses



KTC'S KEY RATIOS

Next Steps!



- Do you need to re-org your chart of accounts?
- What are healthy ranges?
- Is there any indication of business areas that are out of control or not performing to expectations?
- Will you set up a dashboard?
- Will you use your Quickbooks differently?



OTHER KPI'S



Marketing KPI's

- Average order value (by customer type)
- Sales by product line
- Website visitors
- E-commerce conversion rate
- Wholesale customer close rate
- Average order frequency
- E-mail open rate
- E-mail click through rate
- E-mail list size or growth rate
- Customer satisfaction rate
- Customer lifetime value
- Marketing campaign ROI
- and so many more...!

Operations KPI's

- Production per hour (pounds, jars, etc)
- Cost by crop (labor tracking)
- % Yield (meat, VAP, etc)
- and so many more!!!

What other metrics have you found valuable?



COMPARING KEY METRICS

How to use the numbers



Calculate, then compare:

- Period vs. period, such as year over year
- Actuals vs. budget
- Across enterprises
- Benchmarking

Over or under?

- Good or bad? Why?
- Strategy for improvement
- Red yellow green
- Monitor change

Monthly monitoring

Quarterly trends spur action

*Management is doing things right.
Leadership is doing the right things.*

-PETER DRUCKER

