

Where Am I?

- **World Trade Situation and Outlook**
- **Evaluating the Financial Viability of the Business**
- **Inventory of Resources and Talents**

World Trade Situation and Outlook



Lychee (*Litchi chinensis*) is an exotic subtropical fruit crop native to Southeast Asia. The tree is attractive, having a dense, rounded, symmetrical canopy of dark green foliage, and can grow to be very large. Lychee is an excellent fresh fruit with a pleasant, sweet flavor. The fruit is small, round to oval, and borne in loose clusters. When the fruit are ripe, the leathery skin develops an attractive pinkish to red color.

The fruit is grown commercially in many subtropical areas such as Israel, Australia, Thailand, Taiwan, India, Vietnam, parts of Africa, and at higher elevations in Mexico and Central and South America. World production of lychee is estimated to be around 2.11 million tons with more than 95 percent of the world cultivation occurring in Asia. Total production in the Southern Hemisphere (mainly Africa, Madagascar, and Australia) is about 50,000 tons. A relatively small amount is produced in the United States and in

Mexico, Central and South America. The top five world lychee producing countries are China, India, Taiwan, Thailand, and Vietnam. The production season in the northern hemisphere extends from about April to mid-August and in the southern hemisphere from November to February.

Lychee originated in southern *China*, which is its largest world producer. Current production covers approximately 1,482,626 acres, over 60 percent of which have been developed in the past 10 years. Total annual Chinese production of the fruit is 1.5 million tons in “good” years and about 0.6 million in “bad” years. Yields are relatively low even in the “good” years, averaging about one ton per acre. The production season extends from mid-May to mid-August.

India is the second largest producer, producing approximately 500,000 tons of lychee annually on 138,873 acres. Productivity here is relatively high compared to other growing regions and averages about 3.1 tons per acre. Because cultivation occurs over a wide range of climates, the production period extends from the first week of May to the first week of July.

Taiwan is the third largest producer. The cultivation of lychee peaked in 1988 at over 37,067 acres, but since then has declined to about 29,653 acres. Approximately 100,000 tons of lychee is produced annually, with more than 90 percent being sold on the domestic market. The production period in Taiwan extends from June to August, due mainly to the many different varieties being grown.



Thailand, the fourth largest producer, has an estimated annual output of 85,000 tons from 54,857 acres. Lychee production occurs mainly in the northern region of the country in the provinces of Chiang Mai and Chiang Rai. The fruit harvesting season runs from April to June.

Rounding off the top five major world lychee-producing countries is *Vietnam*. Annual production is estimated at about 50,000 tons from 87,356 acres. Production occurs in the northern region of the country. Lychee is considered a major crop in Vietnam, with commercial production increasing quite rapidly. Harvesting of the fruit extends from May to June. Approximately three-fourths of the production is consumed domestically.

Other notable producers include South Africa (which has increased its production of lychee from 3,707 acres in 1991 to almost 7,413 acres in 2001 and exports 1,500 to 4,000 tons annually to Europe) and Australia (which produces 5,000 tons annually, mainly from commercial growers in Queensland). Mexico currently has an estimated 2,780 acres with acreage and production increasing rapidly. The United States is considered a relatively small producer with a total production of about 433 tons annually from 1,535 acres. U.S. production occurs in Florida (1,201 acres), Hawaii (304 acres), and California (30 acres),

with Florida being the main producing area. The crop is marketed domestically and consumption outstrips demand.

International Trade¹

For the lychee market, less than five percent of the world's production, or approximately 100,000 tons, enters into world trade on an annual basis. The fresh fruit market dominates the trade, followed by dried and canned fruit. The main importing countries are the European Union, the United States, Hong Kong, Singapore, Japan, and Canada. The main exporting countries are China, Taiwan, Thailand, Madagascar, South Africa, Mexico (most of it sent to California) and Australia.

Volumes imported by the European Union have been increasing mainly because of increased demand in France. Of the 22,625 tons imported by the European Union, France accounted for almost half, while the rest was distributed mainly to Germany and the United Kingdom. The main suppliers of the EU market are Madagascar, at approximately 80 percent of the market shares, and South Africa, at 12.6 percent. The balance of the market is supplied by Australia, Thailand, India, China, and Taiwan. Hong Kong and Singapore import about 13.5 thousand tons of lychee from China and Taiwan during June and July.

In China, lychee is sold as fresh, dried, or processed. Fruit can be dried in the sun or in ovens, with good flavor retention. Most of the dried fruit are sold locally, with some exported to other countries in the region. Processing is less important; only 2,500 tons are sold as canned, frozen, or fermented each year. Frozen and canned fruit are mainly sold to the United States, Japan, the Republic of Korea, and Australia. "Haak Yip" and "Wai Chee" are the main cultivars used for canning lychee. China shares in the Hong Kong and Singapore markets and exports 15,000 tons per year (two percent of its total production). Taiwan also exports to these countries, as well as to the Philippines (2,000 tons), Japan (1,000 tons), Singapore (500 tons), the United States (1,200 tons), and Canada (1,000 tons). Exports to Europe are virtually non-existent.



About 70 percent of the crop in Vietnam is sold in local markets, and the remainder is exported to China, Hong Kong, and Europe. Most of the crop is sold as fresh fruit; the rest is sold as dried, canned, or juiced.

¹ Because of the general unavailability of trade data on lychee, most of the information presented in this section was borrowed from Gosh, S. P. World trade in lychee: Past, present, and future. *Acta Horticulturae* 558(2001):23 –30.

Thailand also has a significant export industry. Exports to Malaysia and Singapore are shipped by land, while exports to Hong Kong and Europe are shipped by air. Hong Kong mainly imports fresh lychee (9,000 tons), while Malaysia and the United States import canned fruit (6,000 tons). The total volume is 25,000 tons, worth \$40 million. Overall, 10 to 20 percent of Thailand's lychee market is exported. Thailand has an advantage in the world marketplace because it produces fruit earlier than China or India.

The Philippines is a net importer, with the volume it imports increasing by eight percent annually. Its current trade is 1,500 tons, worth \$500,000.

Although India is the second largest lychee producer after China, with over 500,000 tons in a good year, most of its crop is sold locally (there has been little interest in exports until fairly recently). The development of marketing cooperatives and improvements in the post-harvest technology are assisting exports to the Middle East.

The Australian lychee industry is relatively small by international standards, but has a strong export focus. About 30 percent of the crop is exported to Hong Kong, Singapore, Europe, the Pacific region, and several Arab states. Marketing groups were established in the early 1990s in the major growing areas, and they now export half of their production. These groups have a strong commitment to grade standards, post-harvest treatment, and quality assurance.

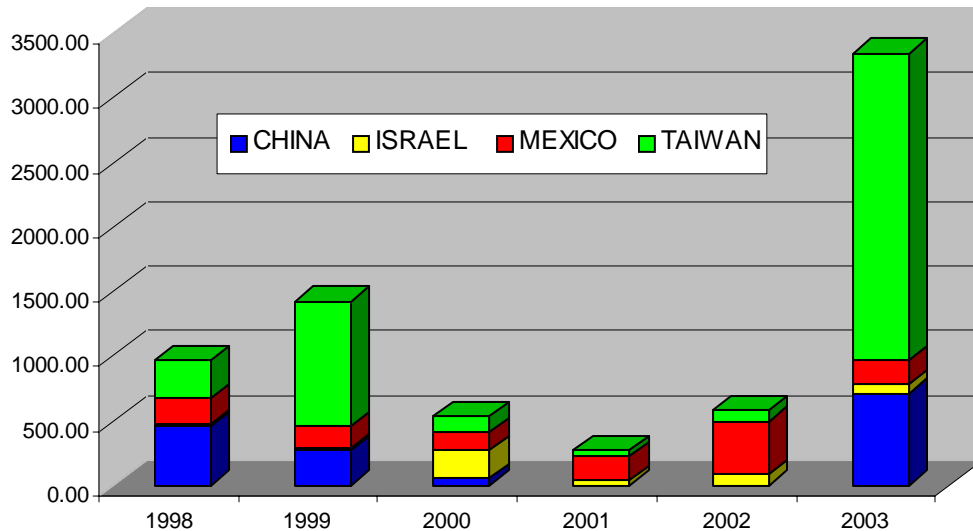
Australia faces strong competition from South Africa, Israel, and Madagascar in the European market, which is 30,000 tons during peak production in the Southern Hemisphere from December to January. However, Australia has an advantage in the market because it ships fruit fresh by air. The bulk of the lychee crop from Africa until fairly recently was shipped in reefer containers after being treated with sulfur dioxide. The average return to Australian growers after transport and other costs have been deducted is \$6.60 per pound. Within Australia, nearly all the crop is sold fresh, with processing virtually non-existent. In fact, canned and frozen fruit are imported from Asia.

Most markets prefer large, highly colored fruit, with sweet flesh and small seeds. Cultivars with a unique flavor, firm flesh, and a high proportion of chicken-tongue seeds are highly sought after in Asia, whereas the markets in Europe, the Pacific region, and North America are less discerning. There are some concerns about sulfur residues from fumigated fruit, especially in Europe, prompting this technology to be phased out. (A small percentage of humans are allergic to sulfur and it is illegal in the US.) There are also barriers to exports into Japan and the United States from some countries, such as Australia, because of quarantine issues associated with fruit flies.

The Food and Agriculture Organization (FAO) of the United Nations has developed CODEX standards for exports of fresh lychee. Mature fruit should have a predominantly red skin, with only a small area of green allowed. The diameter of the fruit should be larger than .78 inches for second-class or standard fruit, and larger than 1.30 inches for extra-class fruit. The total soluble solids content should be greater than 18 percent. The residue for sulfur in the flesh should not exceed 10 milligrams per kilogram.

The demand for fresh lychee in the United States has increased considerably within recent years. This has been due in part to increases in the Asian ethnic populations in the United States and to health-conscious consumers who purchase fruit in specialty stores (Fig. 1). In the past, the demand was mainly for frozen and canned fruit, but the demand for fresh fruit has increased substantially. The main lychee suppliers to the United States are Taiwan, Mexico, China and Israel. In recent years lychee production in the United States has been facing heavy competition. Between 1998 and 2003 imports of lychee grew from 967.9 tons to 3,345.8 tons. The bulk of the increase was due to imports from Taiwan. In 2002, Taiwan doubled its exports to the United States and has overtaken Mexico as the main supplier to the U.S. market. Then in 2003 Taiwan increased exports to an all time high of 2,373 ton or 70 percent of US total imports. The considerable increase has caused US domestic price for lychee to plunge to levels not seen previously.

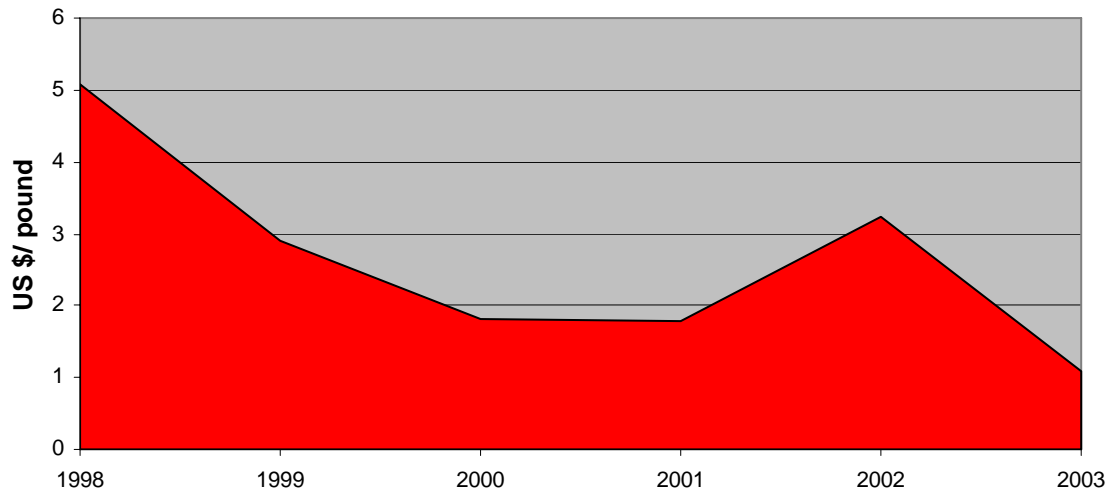
Fig. 1. U.S. Imports of Lychee, 1998 – 2003 (tons)



Farm Gate and Wholesale Prices

Apart from a slight recovery in 2002, farm gate prices trended steadily downwards over the period 1998 – 2003 (Fig. 2). From a high of \$5.07 per pound received by the growers in 1998, prices have fallen to approximately \$1.08 in 2003 or by 78.7 percent.

Fig. 2. U.S. Domestic Farm Gate Prices for Lychee, 1998-2003



The biggest decline in prices was recorded in 2003, with growers receiving a price that was only 33.4 percent of the price received in the previous year and 36.4 percent of the previous five-year average price of \$2.96 per pound. As noted earlier, the sharp decline in price has been attributed to the surge of imports of lychee from Taiwan and to a lesser extent Mexico. Although imports from Taiwan should stabilize at current levels, US domestic farm gate prices are expected to remain weak in the foreseeable future.

Daily Market News reports by the Agriculture Marketing Service of the United States Department of Agriculture are the only official sources of current price data for fresh lychees. The Market News reports reflect the daily wholesale terminal market prices of many domestically grown or imported fresh fruits and vegetables in different cities in the United States. When lychees are available in terminal markets, either grown in Florida or imported, their prices are reported.

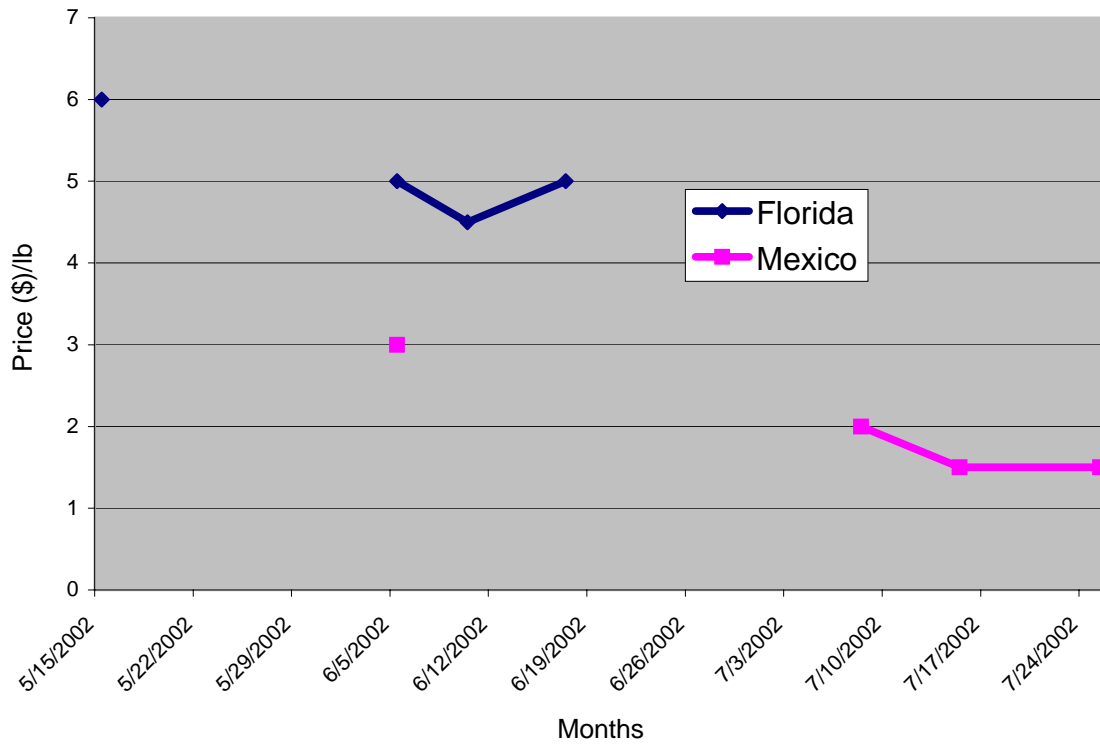
Florida-grown lychee fruit is only available during the months of June-July. Imported lychees from Mexico, Taiwan and Israel are available during other months of the year. Florida-grown and imported lychees are sold in different markets around the country. However, large volumes of lychees are sold in the New York and Los Angeles terminal markets where there are large concentrations of Asian Americans.

Lychee growers in South Florida need price information in different markets to help them obtain highest possible prices. To achieve this, the daily Market News prices of lychee in the Los Angeles and New York terminal markets during the 2002-2003 seasons were obtained. One day in each week was chosen and the price for that day was used to represent the price for the entire week. If the price changed drastically during a given week, then more than one price was used for that week.

The prices for Florida-grown and imported lychees from Mexico, Taiwan, and Israel for both New York and Los Angeles terminal markets for various months in 2002 and 2003 are shown in Figures 3 - 6.

The year 2002 was a good year for lychee growers in Florida. The price for Florida-grown lychees in the New York terminal market was \$6.00 per pound in mid-May and remained high until mid-June, when prices dropped to the \$4.50 to \$5.00 range. Mexican lychees were available in the month of July at considerably lower prices, in the \$1.80 to \$2.00 range (Fig. 3).

Fig 3. Wholesale prices for Florida-grown and imported lychees in the New York terminal market, 2002.



In the 2002 lychee season, prices for Florida-grown lychees were not reported in the Los Angeles terminal market. Lychees from Taiwan were available from mid-June to late August. Prices of Taiwan-produced lychees were \$3.50 per pound in mid-June, but quickly dropped to the \$1.50 to \$2.00 range. From mid-July through mid-August, Mexican lychees sold for slightly more than those from Taiwan. (Fig. 4).

Fig. 4. Wholesale prices for imported lychees in the Los Angeles terminal market, 2002.

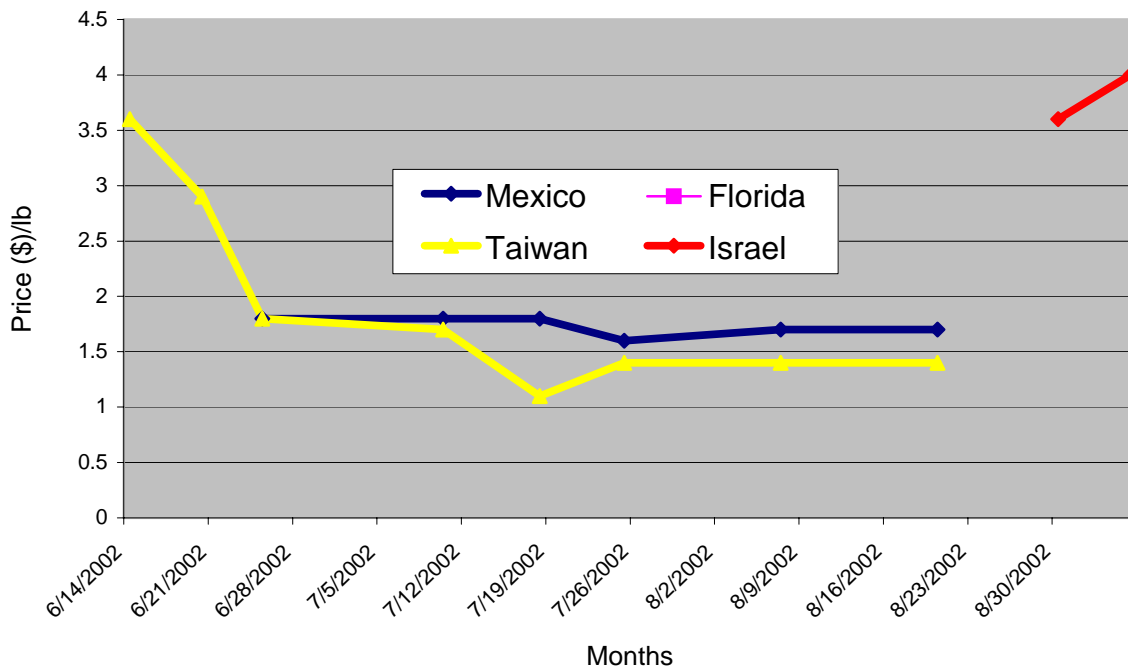
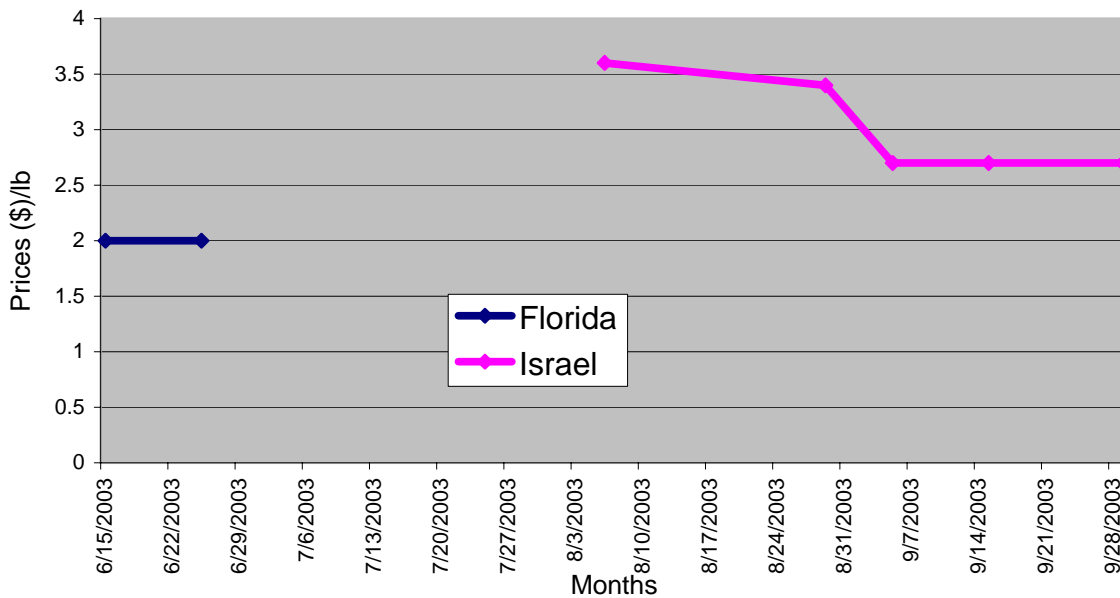


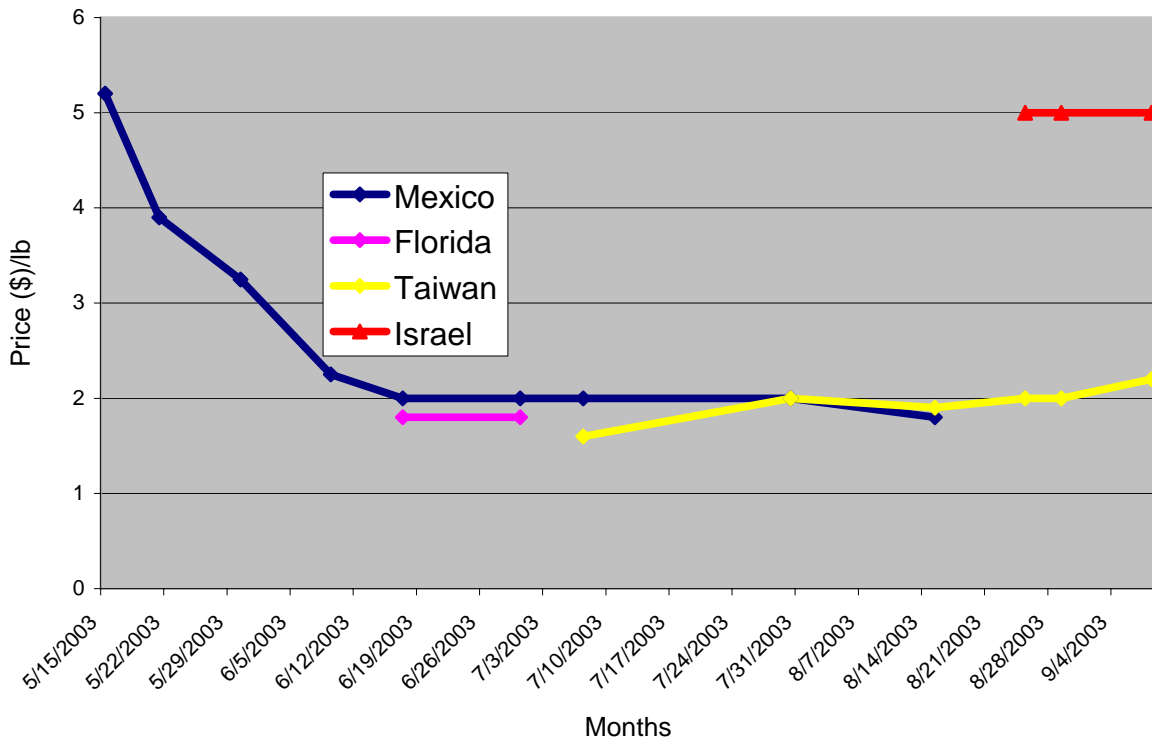
Fig 5. Wholesale prices for Florida-grown and imported lychees in the New York terminal market, 2003.



In the 2003 season, Florida-grown lychees were sold from mid-June to the end of June at the New York terminal markets. The prices for the Florida-grown lychees were reported at \$2.00 per pound. Israeli lychees were available at the New York terminal market from early August to late September, and over the course of this period prices averaged about \$3.00 per pound (Fig. 5).

In the 2003 lychee season, Florida lychees were available in the Los Angeles terminal market on June 17 through June 30. Mexican lychees were present in the market from mid-May to late July. In the month of May, Mexican lychee was sold \$5.00-3.25/lb. By mid-June when Florida lychees were available in the Los Angeles market, prices for both Florida and Mexican lychees were approximately \$2.00 per pound. Taiwan-grown lychees were available from early July through mid-September, and they were priced at about \$2.00 per pound as well. Israeli lychees were in the market in late August and early September, and sold for \$5.00 per pound for the entire period (Fig. 6).

Fig. 6. Wholesale prices for Florida-grown and imported lychees in the Los Angeles terminal market, 2003.





In the Los Angeles Market:

- Florida and Mexican lychees were sold as 10 lb cartons.
- Taiwan fruits were reported as 14 lb cartons.
- Israeli fruits were reported as 4.4 lb cartons.

In the New York Market:

- Mexican fruits were reported as 10 lb cartons.
- Florida fruits were reported as both 10 lb and 5 lb cartons.

Evaluating the Financial Viability of the Business



Just as it is important to construct a new building on a strong foundation, it is important to build the economic future of your business on a sound financial base. Evaluating the financial viability of your business will help you understand the financial strengths and weaknesses of your business position. With knowledge of your financial situation you are in a better position to respond to current economic forces within the industry.

There are three major financial objectives that businesses usually monitor to track their financial performance:

- Solvency to track changes in the net worth of the business;
- Profitability to monitor the earnings of the business; and
- Liquidity to estimate cash flow available for short term payments.

Solvency

Solvency analysis compares the capital (assets) invested in the business with the sources of capital, debt and equity. In almost every business, one of the primary goals is to grow net worth or equity over time. In periods of low profits, a strong equity position helps the business survive and may also provide the borrowing capacity needed to make business adjustments.

The balance sheet is the financial tool used to evaluate solvency. It provides the foundation for all of the remaining financial analysis. It is very difficult to evaluate where you are and what resources you have available for adjusting to economic forces without an accurate balance sheet.

If you do not have a current balance sheet, you may be able to get a copy from your lender. Otherwise, you can build one from scratch. There is a set of financial statement forms at the end of this section that includes a balance sheet format. It is available in PDF format at <http://www.extension.iastate.edu/Publications/FM1824.pdf>. Other possible sources include:

- FINPACK Farm Financial Software, available through many local Extension offices.
- Assessing and Improving Your Farm Solvency, <http://www.agnr.umd.edu/MCE/Publications/PDFs/FS540.pdf>

Asset Valuation

It is becoming more and more common for agricultural balance sheets to include Cost and Market valuations for capital assets.

- Cost – capital assets are valued at their original purchase cost less depreciation. Cost value balance sheets are most useful in evaluating year to year progress.
- Market – capital assets are valued at their estimated current market value. This is most useful in evaluating the financial soundness of the business and borrowing capacity.

Market value balance sheets are still the standard used by most agricultural lenders. For the purpose of this analysis, it is probably most useful to value assets at their conservative market value net of selling costs.

Measuring Solvency

The Debt to Asset Ratio is the most common measure used to evaluate business solvency.

$$\text{Debt to Asset Ratio} = (\text{Total Liabilities} / \text{Total Assets}) * 100$$

Simple rules of thumb for evaluating solvency (Debt to Asset) position are:

Strong	Under 30 %
Caution	30 to 60 %
Vulnerable	Over 60 %

Businesses that are in a **Strong** solvency position have a firm foundation upon which to build or change their operations. They may be experiencing profitability or cash flow problems because of the current economic situation, but their financial position should open up doors to alternatives and borrowing capacity that allow them to survive and adjust to more profitable strategies.

Businesses whose debt to asset ratio raises the **Caution** flag need to do some serious financial planning to assure, as much as possible, that their net worth position is not going to continue to erode. If so, they need to look at their options. Their lender should still be willing to work with them but may not be willing to lend enough money to make major changes in facilities or equipment. In the worst case, they may need to consider exiting the business while there is still substantial net worth left.

Businesses in a **Vulnerable** solvency position have limited ability to borrow additional funds. They need to look at options that improve net worth growth without investing more money in the business. Some examples might include using existing facilities more fully and/or improving operating efficiencies. Other options could include adding non-farm income and reducing family living costs.

Profitability

Profitability analysis involves analyzing how much money the business is making. Profitability is measured using an Income Statement. Most non-farm businesses are required to complete an accrual income statement for tax purposes so it is relatively easy to evaluate their profitability.

Farmers and ranchers, unless they are very large, are not required to do accrual accounting for tax purposes. While cash accounting provides flexibility for tax management, it leaves agricultural producers in a position of evaluating their profitability based on a system whose general purpose is to reduce income. Therefore, for many growers, tax statements do not provide a reliable source of information for evaluating farm business profitability.

Accrual Adjusted Income Statement

An accrual adjusted income statement adjusts the cash income and expenses reported for tax purposes for changes in inventories of crops, growing livestock, and assets that would have been included in taxable income had they been sold during the period covered. It also adjusts for changes on prepaid expenses, accounts payable and other items that would have been recorded as expenses had they been paid.

The set of financial statements included at the end of this section includes an accrual adjusted income statement format. The FINPACK Farm Financial Software, available through many local Extension offices, also includes a tool to calculate accrual net farm income.

Using Schedule F Tax Statements

It may be impossible to complete an accurate accrual adjusted income statement. In that case, the only option may be to use tax information. If so, it is recommended that you use the average net farm income from several years' Schedule F tax forms. In theory, the average of the net income from three or more year's taxes will wash out the effects of year-to-year inventory changes. Livestock producers should add the income from sales of raised cull breeding livestock to the Schedule F net income.

The bottom line of the income statement, Net Farm Income, is the amount of money the business contributed during the period for owner withdrawals for family living and taxes. If, over a period of time, net farm income is not enough to cover owner withdrawals, other sources of income will be needed or net worth will decline.

Measuring Profitability

The most common measure of profitability is the Rate of Return on Assets (ROA).

$$\text{ROA} = \frac{\text{Net Farm Income} + \text{Interest Expense} - \text{Value of Unpaid Labor \& Management}}{\text{Total Farm Assets}}$$

Value of Unpaid Labor and Management is an estimate of the amount of income unpaid farm operators could have earned from off-farm employment.

Rate of Return on Assets can be directly related to interest rates. The goal when borrowing capital is to earn a higher return than the interest rates being paid. Businesses with low debt to asset ratios can operate with a lower ROA because they are paying interest charges on a smaller portion of their assets.

Business profitability can vary a great deal from one period to the next. Managers should take care when basing decisions on results from only one period. With that in mind, some simple rules of thumb for evaluating your Rate of Return on Assets are:

Strong	Over 8 %
Caution	3 to 8 %
Vulnerable	Under 3 %

A **Strong** ROA indicates that the business is operating efficiently. If there are cash flow problems, it may be that the business is not large enough to support the number of people or families drawing from it. Or it may be that there is too much short-term debt placing undue pressure on cash flows. In that case, maybe debt repayment schedules can be restructured.

If the ROA raises the **Caution** flag, take a closer look at business efficiencies. Are there adjustments that could be made to control costs, improve marketing, or use facilities and equipment more intensively?

For businesses where the ROA analysis comes up **Vulnerable**, managers need to dig deeper to try to figure out why the business was not profitable. It is human nature to blame problems on factors beyond management control, like foreign competition. The management challenge is to position the business so that it can react to those outside forces.

Liquidity

Liquidity deals with how much cash the business could convert or generate in the short term, usually one year, to meet financial obligations. Holding inventories of cash and liquid assets is a risk management strategy to cushion the business from short-term financial downturns. Unfortunately, cash flow pressures often prevent businesses from

holding liquid assets. And even if they can, it is difficult to invest those liquid assets in places that yield a high rate of return. So there is often a conflict between liquidity and profitability.

The Cash Flow Statement is the most common tool for analyzing the liquidity of your business. It can be either a summary of sources and uses of cash from the past period or a projection of cash flows for the future. Many agricultural lenders require a cash flow projection as part of any credit application.

The set of financial statements included at the end of this section includes a cash flow statement. Other sources of projected cash flow formats include:

- FINPACK Farm Financial Software, available through many local Extension offices
- Cash Flow Projection and Operating Loan Determination, <http://www.oznet.ksu.edu/library/agec2/mf275a.pdf>

Measuring Liquidity

The most common measure of liquidity is the Current Ratio. It is useful for businesses that have substantial current assets. Businesses with limited current assets have little liquidity no matter what the current ratio says.

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Simple rules of thumb for evaluating your Current Ratio:

Strong	Over 1.75
Caution	1.1 to 1.75
Vulnerable	Under 1.1

Businesses with a **Strong** Current Ratio have established a healthy risk management cushion for difficult economic times. Their challenge is to make sure they are earning a reasonable return on their liquid assets.

If the Current Ratio raises the **Caution** flag, management needs to monitor cash flows carefully. A low current ratio will not make the business unprofitable but it might make it difficult to take advantage of opportunities as they arise.

Businesses with a **Vulnerable** Current Ratio are in a precarious position. Businesses don't usually go out of business because they lose all their net worth; they go out because they can't pay their bills. Businesses that fall in this category need to take immediate action. First, determine if there is a profitability problem, a solvency problem, or are owner withdrawals putting too much strain on the business. Maybe adding non-farm income is an option. Operators in this position should work very closely with financial

advisors, creditors and others to craft a plan that will get their operation back on the road to financial security.

Adding Up the Evidence

Financial analysis is a diagnostic, but not necessarily a prescriptive process. In other words, it may reveal a problem, but it may not point to a specific solution. The remainder of the resources available through this site will help business managers dig deeper into their operations to look for adjustments and creative options for their individual situations. Producers who understand ‘Where Am I?’ financially are in a much better position to evaluate alternatives for generating more income, controlling costs, and improving their bottom line.

Developed by Dale Nordquist, Center for Farm Financial Management, University of Minnesota

Balance Sheet

Name _____

Date _____

FARM ASSETS	Cost Value	Market Value	FARM LIABILITIES	Market Value
Checking and Savings Accounts			Accounts payable	
			Farm taxes due	
			Short-term notes and credit lines	
Crops held for sale or feed			Accrued interest - short	
Invest in growing crops			- intermediate	
Commercial feed on hand			- long-term	
Prepaid expenses			Due in 12 mo. - intermediate	
Market livestock			- long-term	
Supplies on hand			Other	
Accounts receivable				
Other				
Total Current Assets			Total Current Liabilities	
Unpaid Patronage Dividends			Notes and contracts, remainder	
Breeding livestock			Other	
Time certificates				
Farm securities				
Other				
Machinery and Equipment				
Total Intermediate Assets			Total Intermediate Liabilities	
Buildings/improvements			Notes and contracts, remainder	
Farmland			Other	
Farm Securities				
Other				
Total Long-term Assets			Total Long-term Liabilities	
A. Total Farm Assets			B. Total Farm Liabilities	
Current Assets (market) Current Liabilities	= _____	Current ratio	Farm Net Worth, Cost Value (A - B)	
Total Liabilities Total Assets (market)	= _____	Debt to asset ratio	Farm Net Worth, Market Value (A - B)	

Balance Sheet (continued)

PERSONAL ASSETS		PERSONAL LIABILITIES	
Bank accounts, stocks, bonds		Credit card, charge accounts	
Automobiles, boats, etc.		Automobile loans	
Household goods, clothing		Other loans, taxes due	
Real estate		Real estate, other long-term loans	
E. Total Personal Assets		Total Personal Liabilities	
G. Total Personal Net Worth (E - F)			
H. Total Net Worth, Market Value (D + G)			

INCOME STATEMENT

Name _____

Date _____

INCOME			EXPENSES	
Cash income			Cash Expenses	
Sale of livestock bought for resale			Breeding fees	
Sales of livestock, grain, other products			Car and truck expenses	
Patronage dividends			Chemicals	
Agricultural program payments			Conservation expenses	
Crop insurance proceeds			Custom hire	
Custom hire income			Employee benefits	
Other cash income			Feed purchased	
Sales of breeding livestock			Fertilizer and lime	
A. Total Cash Income			Freight, trucking	
Income Adjustments	Ending	Beginning	Gasoline, Fuel, Oil	
Crops for sale or feed			Insurance	
Livestock held for sale			Interest paid	
Accounts receivable			Labor hired	
Unpaid patronage div.			Pension and profit-share plans	
Breeding livestock			Rent of land, buildings, equipment	
Subtotal of Adjustments	B.	C.	Repairs, maintenance	
D. Home Used Production			Seeds, plants	
E. Gross Farm Revenue (A + B - C + D)			Storage, warehousing	
F. Net Farm Income From Operations (E - M)			Supplies purchased	
Sales of farm capital assets			Taxes (farm)	
Previous cost value or new purchase			Utilities	
Cost of capital assets sold			Veterinary fees, medicine	
G. Capital Gain or Loss			Other cash expenses	
			Livestock purchased	
			I. Total Cash Expenses	

Income Statement (continued)

		Expense Adjustments	Beginning	Ending
		Investment in growing crops		
		Prepaid expenses		
		Feed and supplies on hand		
			Ending	Beginning
		Accounts payable		
		Farm taxes due		
		Accrued interest		
		Subtotal of Adjustments	J.	K.
		L. Depreciation		
H. Net Farm Income (F + G)		M. Gross Farm Expenses (I + J - K + L)		

Statement of Cash Flows

Name _____

Date _____

Cash Farm Income and Expenses		
Total Cash Income		
Total Cash Expenses		
Capital Assets		
Sales of Capital Assets		
Purchases and Net Cost of Trades		
Financing		
New Loans Received		
Principal Paid		
Nonfarm		
Nonfarm Income and Receipts		
Nonfarm Expenditures		
Cash on Hand, Farm and Nonfarm		
Beginning of Year		
End of Year		
Total		

If all cash transactions are included correctly, the totals for the two columns will be equal.

Source of financial statements: Farm Financial Statements, William Edwards, Iowa State University, <http://www.extension.iastate.edu/Publications/FM1824.pdf>

Inventory of Resources and Talents



One of the purposes of TAA Technical Assistance is to help business owners find a profitable future direction for their business. The direction you take your business will depend on several factors, including:

- What you want to do (your goals)
- What is happening within the industry, and
- The package of skills, resources, and talents you and the other stakeholders in your business can pull together to implement a change.

Your resources come in at least two forms: 1) the hard assets and financial resources that are included on your balance sheet and 2) the knowledge, interests, and abilities that you can draw on from your management team. This section will focus on these personal attributes. It will ask a series of questions that are intended not to highlight weaknesses, but rather to help you build on your strengths and avoid the pitfalls of mapping a direction for your business that does not match your skills, likes, or values.

Production and Operations Management	<u>Yes</u>	<u>No</u>
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Are your skills best suited to high volume commodity production?

- | | | |
|--|-------|-------|
| • Do you have a history of producing high yields or rates of production per unit? | _____ | _____ |
| • Are you a low cost producer? | _____ | _____ |
| • Do you stay on top of new technologies? | _____ | _____ |
| • Do you get things done on time? | _____ | _____ |
| • Is expansion an option or interest? | _____ | _____ |
| • Do you gain your competitive advantage by producing more per unit at a lower cost? | _____ | _____ |

Or, are your skills best suited to niche market or value added products?

- | | | |
|---|-------|-------|
| • Are you good at juggling multiple production schedules? | _____ | _____ |
| • Do you monitor production activities and quickly make adjustments if problems surface? | _____ | _____ |
| • Do you have a history of producing high quality products? | _____ | _____ |
| • Do you gain your competitive advantage by marketing multiple products at a high margin? | _____ | _____ |

No matter the type of operation, efficient production is important. But it may be more important for some than for others. For producers of traditional agricultural commodities, the goal is to be the lowest cost producer. If you can keep costs per unit down and produce enough volume, you can generally be successful in commodity production.

For direct marketers, value added producers, and other non-traditional operations, efficient production is still important. But product quality and efficient marketing may well be more important than producing the highest production rates at the lowest costs. The world is full of stories of companies that have been very successful just because they out-marketed the other guys. Producing these types of products takes a different mindset. You may spend more of your time outside of production activities while managing others. You will spend more time in your office and less time on your tractor. If you can be happy doing these activities and you have skills in those areas, you may want to consider a transition into this type of operation.

Marketing

Yes

No

Are your skills best suited to marketing traditional agricultural commodities?

- Would you rather be out in the field or in the production facilities than negotiating with buyers? _____
- Do you feel time on the phone is wasted time? _____
- Do you have the option to contract your production? _____
- Do you negotiate input costs? _____
- Do you lock in a profit when it is offered to you? _____

Or, do you have skills suited to marketing niche market, value added, wholesale, or retail products?

- Do you like to negotiate deals? _____
- Are you good at closing a deal? _____
- Do you know how to estimate the market for a product? _____
- Do you develop good relationships with buyers and sellers? _____
- Do you have skills in advertising and promotion? _____
- Are you good at making pricing decisions? _____
- Do you know who your competitors are? _____
- Do you target your products at a specific market? _____

Is there a market for your product? Most commodity producers have not had experience with estimating market size, target marketing, advertising and promotion, and pricing. These are skills that may be needed if you plan to move into a “niche” market or if your

plans include direct marketing or processing of farm products. Many commodity producers have the ability to move into these areas but they may need to educate themselves on the techniques. There are classes and other resources in community colleges and other institutions in most communities to help you improve these skills.

People Skills

Yes No

Are your skills best suited to managing a sole proprietorship?

- Do you feel a need to be actively involved in all or most production activities? _____
- Would you rather be out doing than directing others? _____
- Do you feel frustrated training employees? _____
- Do you worry about others getting things done right? _____

Or, do you have the skills needed to manage multiple employees?

- Do you like to work in a team setting? _____
- Are you comfortable delegating tasks to others? _____
- Are you able to constructively criticize employees? _____
- Do you have specific hiring procedures? _____
- Do you have specific training procedures for new employees? _____
- Are you comfortable with firing employees? _____
- Do you get satisfaction out of seeing someone else succeed? _____
- Do you like to delegate production tasks to others? _____
- Are you good at training others to do production tasks? _____

Many feel that they have to grow to be competitive in today’s business world, but there are still many very successful small businesses. Moving from a business with few employees to a multiple employee business is one of the biggest challenges for most business managers (inside and outside of agriculture). Those who successfully make the transition tend to be very happy with the change. They find that they can get away with assurance that things are getting done while they are gone. They build managerial capacity in the next generation and they get a great deal of satisfaction out of seeing others grow and be successful. But not everyone has the skills to be a people manager. If you are not comfortable with your skills in this area, there are two options: 1) get help and training in personnel management; or 2) stay small and look for other ways to improve profitability.

Money Management Skills

Yes _____

No _____

Should you consider hiring accounting and financial services?

- Do you use your records only for tax purposes? _____
- Do you let accounting functions slide as long as possible? _____
- Does your lender complete your balance sheet for you? _____
- Do you place financial reports in your files without examining them? _____
- Would you rather do just about anything else but accounting? _____
- Do you lack trust in your lenders? _____

Or, do you have the skills to manage the finances of the business?

- Do you know your production costs per unit? _____
- Do you like to do your own accounting? _____
- Do you read and understand financial reports? _____
- Do you develop a financial plan at the beginning of each production or accounting cycle? _____
- Do you monitor deviations from your financial plan and make mid-term adjustments to your plans? _____
- Do you periodically analyze the financial performance of your business? _____
- Do you work well with you lenders? _____
- Do you cover risks with adequate insurance and other risk management tools? _____
- Do you know how your living costs? _____
- Do you know your net worth? _____

Financial management is an area where many agricultural producers feel least comfortable. Again, there are a lot of resources within the Extension Service and local community and technical colleges to help you improve these skills. This is also an area where you might consider hiring outside help or joining a farm management group if one is available in your area. Hiring accounting and tax services, however, may not provide you with a great deal management information. You still need to understand the reports and monitor financial performance.

Other Resources

Other resources include the physical assets you own, the other assets you can acquire through lease or other means, and the financial resources that you can access in terms of equity capital and borrowing capacity. If you are considering a major business adjustment, consider how well adapted each of these resources is to your new business plan. Is the business large enough to support you and other stakeholders? Is your land base suited to high yield and high quality production of your selected products? Are production facilities and equipment adequate? Has asset replacement been adequately considered in your financial plans? Is an adequate and well educated labor force available? These are among the questions that you should honestly answer before you commit to investing more in your business operation.

Summary of Strengths and Weaknesses

After considering the resources, talents, and interests of the operation and the management team, it may be helpful to summarize the strengths and weaknesses of the operation. The worksheet on the following page provides a framework for this summary.

Summary of Resources and Talents

Strengths	Weaknesses
Production and operations	
Marketing	
People skills	
Money management	
Other resources	

Other Publications

Checking Your Farm Business Management Skills, Farm Business Management for the 21st Century, Purdue Extension, West Lafayette, Indiana, by Michael Boehlje, Craig Dobbins, and Alan Miller.

Are Your Farm Business Management Skills Ready for the 21st Century?, Self-Assessment Checklists to Help You Tell, Farm Business Management for the 21st Century, Purdue Extension, West Lafayette, Indiana, by Michael Boehlje, Craig Dobbins, and Alan Miller.

Building a Sustainable Business, A Guide to Developing a Business Plan for Farms and Rural Businesses, Minnesota Institute for Sustainable Agriculture, St. Paul, Minnesota, by Gigi DiGiacomo, Robert King, and Dale Nordquist.

