

Financial analysis helps create goals for the future

PEORIA, Ill. — Understanding how to transition the farm is not easy. You've folded your soul into your farm for 40 years, and you are ready to release yourself from the daily responsibility.

It's common to have reservations about what the next generation will do with your dream. Having a series of candid, crucial conversations is a key part of the process—and I've talked a little bit about that in the past.

This time I want to share something simple that works: the financial analysis. A farmer client of ours told us recently that taking the farm through a financial analysis, having father and son both participating in the process, was a valuable tool in handing down his dream.

He said the process caused his son to think differently about the farm, the dream and the key elements of the business. He was confident the transition could be easier with this tool.

When I think about this, I am not surprised. As any business grows to include more people it is important for all of the players to clearly see the goals of the operation and the measurements of those goals.

In our business, we review a monthly P&L statement so that we understand how much money comes in and where it goes. This review allows the leadership to determine if we are investing wisely in the right areas in order to stay on track. It helps us drive our time and our money in the direction of our goals.

A financial analysis is much the same. It begins with a snapshot of the current financial state of the operation.



Darren Frye, President & CEO of Water Street Solutions

Bringing others in to the process puts everyone on the same page, leveling the playing field. Referring back to what our client told us, once the son understood the costs and returns of specific endeavors year on year, the picture became clearer.

In the framework of a succession plan, the son sees that the numbers are going to be coming into and going out of his wallet soon. The financial analysis is a road map to the future and is an excellent way to communicate what you should expect your decisions to yield.

In the analysis, we look at breakevens, working capital, machinery expense per acre farmed and our return on assets and return on equity. Each metric helps us to see the business from another perspective. For the son in this operation, it was the CliffsNotes version of the financial story of the farm. It allowed him to catch up quickly and understand why his dad made some of the decisions he had.

Once all numbers are out in the open, they can be linked to passion and create bet-

ter opportunities for success.

For example, if the farm is currently diversified with crop and livestock production and the next generation doesn't have a passion for the livestock part of the operation, the numbers will help make some decisions.

If livestock has been a profitable piece of the farm entity, everyone should realize this and determine a way to either replace that income or find the help needed to keep the livestock operation strong.

With everyone looking at the financial analysis, they can talk about what should change in the operation. They see each decision more like a business decision, and perhaps some of the tension is relieved between generations.

The financial analysis creates a hub to work around to build goals for the future that feed a shared vision of the operation's legacy. This tool can also help determine areas of focus or opportunities for the farm.

Think about the benefit of starting this now, knowing that in ten years you plan the operation will support two more families. Planned growth built on a solid foundation will produce the best chance of success.

Six months before you plan to transition your farm is not the time to begin. You're building a road map for the future—and the financial analysis is your navigator.

Numbers bring balance, stability and clarity. The financial analysis reveals where we struggle, where we excel and the path to bigger opportunity. That path is a great place to hand off the baton from your generation to the next.