

# ***THINKING LIKE A CFO FOR YOUR FARM***

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# *Role of a Chief Financial Officer (CFO)*

## **Differentiating Between An Accountant & a CFO**

### **1. Accountants:**

- Transaction Oriented
- Prepare Reports
- Maintain General Ledger

**Accountants Look Backward At What's Already Happened!**

### **2. Chief Financial Officers**

- Analyze Results – Financial Ratios
- Budgets and Forecasts
- Design Reports

**CFO's Look Forward to Help Project What's Going to Happen**

### **CFO's Turn Financial Statements into a Roadmap for the Farm**

#### **Calculating the Numbers Help You Formulate Questions**

- 1. Is our farm profitable?**
- 2. Do we have a competitive advantage?**
- 3. Do we have the resources to expand?**
- 4. Is it possible to bring another family member into the business?**

# *Role of a Chief Financial Officer (CFO)*

## **Formal Duties of a CFO**

### **1. Control Duties**

- a) Keep accurate records: whole farm & enterprise
- b) Prepare accurate financial statements

### **2. Treasury Duties**

- ✓ Where to invest retained earnings
  - ✓ Purchase farm machinery, buildings, grain bins, farmland
  - ✓ Retirement savings...farmland vs. off-farm investments

### **3. Forecasting**

- ✓ Provide insight into strategic direction
- ✓ Work closely with Chief Executive Officer, Board, Partners

# *Five Key Financial Performance Areas*

# *1) Risk and Financial Documentation*

## **1. Insurance Coverage and Risk Management**

## **2. Accounting Systems**

- a) Business performance
- b) Cost control
- c) Profit planning

## **3. Financial Planning Procedures**

- a) Capital budgeting
  - a) Analyze capital purchases...machinery, buildings, bins & farmland
  - b) Managing working capital
    - ✓ Working capital is current assets minus current liabilities

## *2) Capital Structure and Debt Service*

- **Cost of Capital**
  - Interest rate
  - Equity
  
- **Financial Resources**
  - Liquidity
  - Leverage
  - Cash flows and debt service (repayment capacity)
  
- **Relationship with**
  - **Lenders**
  - **Land owners**
  
- **Tax Considerations and Management**

## *3) Profitability*

### **Key Metrics to Assess the Farm's Profitability**

1. Operating profit margin
2. Asset turnover ratio
3. Return on assets
4. Financial structure
5. Return on equity

**Can financial analysis help the farm become more profitable?**

**Yes!...How can you manage what you don't measure?**

## *4) Size and Growth*

**Does the farm have enough cash flow to**

- 1. Replace depreciable assets**
- 2. Purchase farmland?**

**Is the business large enough?**

- Long-run viability
- Adding a family member

**What is our farm's sustainable growth rate?**

## *5) Creating Shareholder Value*

- **Is the farm earning an economic profit?**
- **What do we mean when we say “economic profit”?**
  - Economic profit is calculated by subtracting from gross revenue
    1. Cash costs
    2. All opportunity costs, including
      - a) Unpaid family & operator labor
      - b) Interest charge on owned depreciable assets
      - c) Market rental rate for farmland owned

# *Competitive Advantage*

## **What is your farm's long-run business strategy?**

A farm can only outperform rivals if it can establish differences that it can preserve

What's Going to Be Your Farm's Competitive Advantage

1. Deliver greater value to customers
  - ✓ Differentiate what you produce from others & receive higher prices

Or

2. Create comparable value at a lower cost
  - ✓ Become a low cost producer for enterprises you are engaged in
3. Or Do Both 1) and 2)

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