



## Planning the long-term recovery of your farm

### *7. Do I need to make changes in my farming operation?*

The effects of a disaster may be only part of your financial difficulties and may serve to aggravate existing farm or family financial problems. Most farms are family operations, and financial problems may have many causes. Looking to the future, you and your farming operation must be able to produce the financial results the family desires. A good understanding of the farm's performance before the disaster is a good place to start. The net worth, cash flow, and earnings statements provide a very broad overview of farm financial health and performance. The "Sweet 16" identify weaknesses and problems with the farm as a whole, but they do not tell you why these problems occurred or what can be done to solve them.

Additional information is needed. Digging deeper into financial problems requires information about farm performance. After all, financial performance is a consequence of the farming operation. Several additional, farm-related measures will help explain the results of



the financial analysis, but it is important to note that they are not a substitute for this analysis—financial performance and health cannot be inferred from farm production data and must be measured directly.

Farm performance measures will be farm- and enterprise-specific, but they should focus on these areas:

#### **Row crop or cash crop enterprises**

- Land productivity: Production per acre; average price received per bushel, pound, or bale sold; gross revenue and

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net income per acre for each crop.

- Labor efficiency (hired and family): Gross revenue per worker (calculate part-time workers as a fraction of a full-time worker); number of crop acres per worker for the farm as a whole.

- Crop expenses: Fertilizer, seed, and chemical expense per acre, per unit of crop sold, and as a percentage of gross revenue for each crop.

- Buildings, machinery, and power expense: Building depreciation, machinery and equipment depreciation, and machinery operating expense per acre and as a percentage of gross farm revenue.

- Labor, power, and machinery cost: Hired labor cost per acre; unpaid family labor charge per acre; total labor, power, and machinery cost per acre and as a percentage of gross farm revenue.

#### **Livestock enterprises**

- Livestock productivity: Production per head; average sale price per head or per pound; gross revenue and net income per head for each enterprise; production of home-

grown feeds and forage(s) per acre and per head; acres of crop and pasture per head of livestock (if applicable).

- Labor efficiency (hired and family): Gross revenue per worker; number of livestock per worker.

- Feed expenses: Purchased feed, home-grown forage crop expense (where applicable), and total feed cost per head and per unit sold; purchased feed cost as a percentage of gross revenue; home-grown forage and feed cost per ton fed for each enterprise.

- Buildings, machinery, and power expense: Building depreciation, machinery and equipment depreciation, machinery operating expense per unit of livestock product sold and as percentage of gross revenue.

- Labor, power, and machinery cost: Hired labor cost and unpaid family labor charge per head of livestock and as a percentage of livestock revenue; total labor, power, and machinery cost per head of livestock and as a percent-

age of gross revenue.

#### **All farms**

- Investment: Machinery and equipment investment, land and buildings investment per acre or per head of livestock and per worker.

- Debt load: Debt and annual debt payments per acre or per head of livestock and as a percentage of gross farm revenue.

These measures of farm performance are important, but no single measure tells the whole story. If you are unfamiliar with this type of analysis, you should seek the help of a qualified business adviser or consultant. These farm-specific measures are much more valuable when similar information is available on other farms for comparison. Comparative analysis shows the strengths and weaknesses of the business more clearly than the information for a single farm can. Correctly identifying existing problems is the first and most important step in developing a sound plan for the future.

Prepared by **Geoffrey A. Benson**, Extension Economist, North Carolina State University