

FINANCIAL MANAGEMENT



Acknowledgments

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INTRODUCTION - SUSTAINABILITY AND FINANCIAL MANAGEMENT

The Almond Board of California defines sustainability in relation to almond growing as follows: “Sustainable almond farming utilizes production practices that are economically viable and are based upon scientific research, common sense and a respect for the environment, neighbors and employees.” This definition is consistent with the concept that sustainability is a balance among three principles, or E’s: Ecologically Sound, Socially Equitable and Economically Viable. But, clearly, the economic E of sustainable agriculture is literally where the buck stops. If a farm or processing facility is not profitable (i.e., economically viable), it is not sustainable.

Financial management is one of the keys to an economically viable and sustainable agricultural operation. In the case of farming, it is a delicate balance between good business sense and good farming sense.

One way to assess the economic viability of practices used to produce or process almonds would be to conduct a cost/benefit analysis for each practice. Based on each individual cost/benefit analysis, a decision then could be made to continue or discontinue the practice. However, while it may be straightforward to determine the cost of a practice, it can be challenging to quantify the value of the benefits, particularly if related to ecological improvements.

Nevertheless, there are basic, practical financial management methods that, when implemented, can help maintain, and hopefully enhance, the economic viability of the agricultural business. Using the recommended practices in this module to assess your farm, hulling/shelling or processing operation can identify strengths as well as insights for improvement in financial management.

Because most aspects of financial management for almond farming are implemented at the whole-farm (not individual orchard/block) level, the practices relevant to orchards in this module should be assessed for the whole farm. Practices pertinent to almond hulling/shelling or processing should be assessed at the facility level. The appropriate person(s) from your farm or facility responsible for financial decisions should complete the assessment for this module. If your operation has a management team, it may be useful to complete the assessment together.

Financial Management

Economics of almond growing

The Almond Board website is a rich source of information for general production economics, assessing and tracking costs and returns, and improving the profitability of almond growing.

Almonds are one of California's most valuable commodities. Ensure that you are smartly managing production costs and returns by using the resources available at: <http://almonds.com/growers/resources/industry-economics>.

Agriculture and relationships

A typical occurrence in agriculture is the development of friendly, dependable relationships with others in the industry. However, relationships should not preclude smart business decisions. Just because agricultural products have been purchased from the same local company for years, for example, does not mean that other companies and better deals should not be considered.

For this farm or facility, the following practices related to profitability and production were used:

		Not familiar with this	I haven't tried it	I have tried it	My current practice	Not applicable
PROFITABILITY AND PRODUCTION PLANNING						
1	Financial targets, including net profit, were established.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2	Was your business involved in direct sales decisions for any part of your almond crop (if assessing an orchard) or processed almond components (if assessing a huller/sheller or processor facility)? <input type="checkbox"/> Yes. <input type="checkbox"/> No. (Skip to question 4.)					
3	A documented sales and marketing plan, as well as a supporting production plan, have been developed and implemented based on financial targets.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4	Revenue from all sources was estimated for use in budgeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5	Costs were estimated for use in budgeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6	A <i>documented</i> purchasing and financial borrowing plan has been established that includes: (a) decision making and approval authority, (b) the number of required quotes from vendors or lenders, and (c) return on investment (ROI) as an acceptability criterion. <input type="checkbox"/> Yes. <input type="checkbox"/> No. (Skip to question 8.)					
7	Criteria for environmental and social considerations were included in the plan. (See educational box on page 6.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8	The ROI was calculated and evaluated prior to any renovation, expansion and/or renewal over the last five years.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Other: _____				<input type="checkbox"/>	

ABOUT PROFITABILITY

It is likely that most farm and facility managers first think of and plan production — crops, livestock, timber and, in this case, almonds and processed almond components. Next, they calculate the anticipated income for the year, then expenses, and eventually juggle figures until achieving a positive balance. The order of this approach tends to make profitability the final test, for which other considerations are compromised.

Importantly, profit itself is a form of production that ranks alongside other elements that likely constitute your definition of a good quality of life, which probably includes prosperity or at least economic security and viability.

So, consider developing a plan that first focuses on profit by qualifying profit as “profit from crops,” “profit from hunting,” etc. Then, envision a future resource base and landscape that ensures profit can be produced for years to come. Next, test all actions that will be taken to achieve the profit to ensure the actions are socially, environmentally and economically sound — simultaneously — both short and long term. Tests should include a “gross profit analysis,” which is designed to highlight how much each enterprise contributes to covering fixed costs, or overhead. This reordered approach ensures that the plan will produce profit while being socially and environmentally responsible.

When planning production before testing profitability, there is the tendency to overlook or skimp on details that reduce profit and, in the end, may produce undesirable social or environmental consequences.

On the other hand, when a plan is implemented for profit, the farm is more likely to earn higher profits and improve social and environmental benefits for the entire community.

Adapted from: *Holistic Management Handbook: Healthy Land, Healthy Profits* by Butterfield, Bingham and Savory, 2006.

ACCEPTABILITY CRITERIA FOR PURCHASING AND BORROWING

Smart business includes having criteria for making decisions about significant purchases and borrowing money. Obvious recommended criteria are an optimal return on investment (ROI) and high quality and dependability for purchases; low interest rates for loans; and excellent services by vendors and lending institutions. Less obvious but recommended criteria that can affect business financial risk and profit include acceptable levels of environmentally and socially responsible features of products and/or vendors. These features include product packaging, recycled or renewable resource content, recyclability, and energy and carbon footprints; they also include vendor policies and practices for hiring and managing employees.

Investments in New Farms or Facilities

Decision-making criteria to consider before investing in new farms or facilities should include acceptable levels of the following Key Financial Ratios:

Current Ratio for the Targeted Operation = $\text{Current Assets} \div \text{Current Liabilities}$

Net Working Capital for the Targeted Operation = $\text{Current Assets} - \text{Current Liabilities}$

Net Profit Margin for the Targeted Operation = $\text{Net Profit After Taxes} \div \text{Total Revenue}$

For this farm or facility, the following practices related to business risk management were used:

		Not familiar with this	I haven't tried it	I have tried it	My current practice	Not applicable
BUSINESS RISK MANAGEMENT PLANNING						
10	A documented succession plan has been established.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11	A written will and estate plan for the business has been prepared and reviewed at appropriate intervals.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	A documented business continuation plan (disaster management plan) has been developed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13	A documented financial risk management plan has been developed that includes issues which may affect future profitability such as urban sprawl, water quality, labor availability, climate change, etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14	Risk-related insurance policies (fire, crop replacement, liabilities, etc.) were in place and evaluated to ensure adequate coverage based on needs and the scale of the operation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15	An employee health insurance program was provided to manage financial risk from business productivity loss due to employee absence and impaired work efficiency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	Changes in almond prices and/or yield were considered when analyzing financial risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	Costs associated with risk management plans were calculated for use in budgeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	Other: _____				<input type="checkbox"/>	

Succession planning

Succession planning is a practice to identify and develop staff who can fill company leadership positions. Personnel changes may be expected (e.g., via voluntary stepping down/retirement) or unexpected (e.g., via debilitating illness or accident). Regardless, it is smart business to plan for succession to ensure an effective transition and maintain company productivity.

Estate planning

Estate planning is a practice to effectively transfer financial assets from one generation to the next, with the least financial impact. Because it can be complicated and costly, estate planning should be done carefully and in advance.

For this farm or facility, the following practices related to creating and maintaining a budget were used:

		Not familiar with this	I haven't tried it	I have tried it	My current practice	Not applicable
CREATING AND MAINTAINING A BUDGET						
19	After the initial planning process, a budget (yearly) was established and updated with actual results on a regular basis (monthly/quarterly).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20	The budget was reviewed regularly, and necessary adjustments were made to meet upcoming targets.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
21	Other: _____				<input type="checkbox"/>	

Disaster planning

Tragedies can happen. For example, an unexpected weather event may occur that causes extensive damage to business property or disrupts supply chains. Planning ahead for potential catastrophic events helps ensure business and financial stability in the event of a disaster.

My 'secret sauce'...

It is human nature to want to do better than the competition. Moreover, it is human nature to believe we have better operations than the competition. Thus, we often believe our practices must be kept secret to maintain the competitive edge. The end result for many agricultural sectors is that practitioners minimally share information with peers, especially key "competitive edge" information such as production costs.

However, knowing what peers do to resolve financial challenges can benefit the entire industry. Creative ways may exist for the California Almond community to share production costs so benchmarks can be set for making improvements.

For this farm or facility, the following practices related to financial accounting, tracking, analysis and optimization were used:

		Not familiar with this	I haven't tried it	I have tried it	My current practice	Not applicable
FINANCIAL ACCOUNTING, TRACKING, ANALYSIS AND OPTIMIZATION						
22	A financial accounting system and budgeting approach to track and report finances for the farm or facility was used to inform operational decisions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
23	Ownership or appropriate management staff understood how to interpret and utilize cash and accrual statements including a balance sheet, income statement, cash flow and financial ratios to accurately report and manage financial performance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
24	An independent tax and/or financial adviser was consulted to optimize financial performance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25	Financial management reports (profit and loss statements) were generated to track and manage performance for each management unit (e.g., field/block or facility segment).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
26	Input costs and productivity measures were calculated and tracked for all key practices to help manage financial efficiency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
27	Input costs and productivity measures were calculated and tracked for newly implemented practices and compared to previously used practices to help manage financial efficiency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28	Other: _____				<input type="checkbox"/>	

References and more information

Almond Board of California Orchard Economics web page: <http://almonds.com/growers/resources/industry-economics>.

Almond Board of California. 2011. The escalating cost of producing almonds. *California Almonds Outlook*, March 2011. Almond Board of California, Modesto, CA.

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Multi-Commodity Sustainability Programs: Assessment and Implementation. 2013. California Department of Food and Agriculture Specialty Crop Block Grants Program. Grant Agreement SCB10004.

University of California, Davis, Agricultural & Resource Economics Cost Studies web page: <http://coststudies.ucdavis.edu/en/>.

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