



Getting Started in Ag: Enterprise Planning and Analysis

Multi-Enterprise Farming and Ranching

In modern commercial agriculture, most operators manage more than one enterprise in their production mix. In Wyoming, livestock businesses often make use of one or more enterprises to raise feed in addition to the livestock enterprise; farms often grow more than one crop; and machinery is often used for off-farm custom work.

Spreading production risk over several enterprises often contributes to financial success. To more accurately evaluate profitability in your farm or ranch business, consider incorporating enterprise analysis into your business and risk management planning.

Enterprise analysis examines individual net revenue by enterprise and shows how each enterprise affects the operation as a whole.

The ERA tool is one of the many online tools provided by RightRisk.org.

To access the ERA tool, visit RightRisk.org and select the Resources Menu, then select Risk Management Tools.

Figure 1. The Enterprise Risk Analyzer (ERA) Tool.

Enterprise analysis, the process of estimating net returns for an enterprise, is an often neglected—but necessary—part of an effective risk management plan.

Accurate enterprise analysis can help managers correctly allocate resources, determine break-evens, cut costs, manage risks and make future operating decisions.

Define Your Enterprises

From a production ag perspective, an enterprise can generally be defined as an activity that generates one or more saleable products, such as cow/calf, wheat, corn or hay production. These enterprises produce marketable products measured in pounds of beef, bushels of crop or tons of hay.



Figure 2. Hay production is an example of an individual enterprise. Photo credit: Stock.Adobe.com, Martina.

Farmers and ranchers use limited resources, such as land, labor and capital, to support one or more enterprises that generate profits. To single out a segment of the business for analysis as a separate enterprise, it is necessary to isolate the revenues and expenses (both direct costs and contributions to overhead costs) associated with that activity.

First and foremost, it is important to keep accurate records, making sure that all income and expense records can be tied

Another important aspect to consider is the relationships between enterprises. They may be competitive, supplementary or complementary. Two enterprises are competitive when an increase in one enterprise results in a decrease in the other. For example, to grow more acres of corn, you must grow fewer acres of alfalfa when these crops compete for the same acres.

Enterprises are supplementary if an increase in one does not affect the other. Enterprises are considered complementary

through complementary interactions. As a business manager, it is important to know how these enterprises fit into the overall business picture.

Many producers evaluate their operation as a whole rather than examining each enterprise individually. When implemented correctly, enterprise analysis quantifies the profitability of each enterprise and its overall effect on net income. It also shows how enterprises compare to one other in terms of profitability, resource use, and break-even values, which can indicate where to cut costs and improve risk management.

TABLE 1: ENTERPRISE ALLOCATOR WORKSHEET

	Amount to Allocate	Cow-Calf	Native Hay	Oat Hay	Alfalfa Establishment	Alfalfa - Baled
FARM REVENUE						
Gain/Loss on sales of livestock and other resale items	121,479	121,479				
Specified sales of products you raised	42,302		12,291	2,765	2,306	24,940
Sales of products you raised not reported on line 2a						
Cooperative distributions (Form(s) 1099-PATF) - taxable amount						
Agricultural program payments - taxable amount						
Commodity Credit Corporation (CCC) loans reported under election						
CCC loans forfeited - taxable amount						
Crop insurance proceeds and federal crop disaster payments						
Amount received in 2011 - taxable amount						
Amount deferred from 2010						
Specified custom hire (machine work) income						
Custom hire income not reported on line 7e						
Specified other income	469	280	89	10	10	80
Other income not reported on line 8a						
TOTAL FARM INCOME - CASH	164,250	121,759	12,380	2,765	2,306	25,040
Farm Income - Non-cash Adjustments						
Crops Held for Sale NOT Feed - Increase (Decrease)						
Raised Breeding Livestock - Increase (Decrease)	177,272	177,272				
Livestock Held For Sale - Increase (Decrease)						
Cost of Livestock Held for Sale Adj. (Beginning - Ending)						
Hedging Accounts - Increase (Decrease)						
Accounts Receivable - Increase (Decrease)						
Notes Receivable - Increase (Decrease)						
Government Payments Receivable - Increase (Decrease)						
TOTAL NON-CASH INCOME ADJUSTMENTS						
GROSS FARM REVENUE (cash + non-cash)	164,250	121,759	12,380	2,765	2,306	25,040

to an individual enterprise. For enterprise accounting purposes, each enterprise is considered a separate profit center within a farm, and includes receipts and expenses that are directly related to the specific enterprise. These enterprise accounts are an important source of information for determining enterprises that are profitable and those that should receive further analysis or be reduced or eliminated.

when increased production in one enterprise leads to increased production in another. For example, a rotation of nitrogen-fixing alfalfa might increase the yield of next year's corn crop.

Enterprise Planning and Risk

Operating multiple enterprises can spread production risk (not putting all your eggs in one basket, so to speak) and lower costs

Tools Available

The Enterprise Risk Analyzer (ERA) tool offered by RightRisk.org is designed to assist producers in evaluating individual enterprise profitability and the profitability of their overall business. It can also help ensure that resources are allocated in the most efficient manner.

Using this tool, we can complete an enterprise analysis for a Wyoming farm with several different enterprises. After entering the information for five individual enterprises, including price and yield estimates as minimum, most likely, and maximum values, as well as Schedule F income and expense information, we can examine the break-even information as well as the calculated probabilities for various price and yield levels.

The ERA tool allows users to see how various enterprises work together, as well as identify areas for improvement. The tool offers risk analysis based on the range of estimates entered for both prices and yields. This feature is important because managers often do not account for risk in the form of variable prices and yields. It is easy to overlook the fact that these values can change, which in turn affects the enterprise analysis used to make decisions. Using the ERA tool is one way to account for the inherent risk associated with price and yield fluctuations.

TABLE 2. ENTERPRISE RISK ANALYZER OUTPUT

NET INCOME ANALYSIS						
	WHOLE FARM	Cow-Calf	Native Hay	Oat Hay	Alfalfa Establishment	Alfalfa - Baled
FARM REVENUE						
TOTAL FARM INCOME - CASH	164,250.00	121,759.00	12,380.00	2,765.00	2,306.00	25,040.00
TOTAL NON-CASH INCOME ADJUSTMENTS						
GROSS FARM REVENUE	164,250.00	121,759.00	12,380.00	2,765.00	2,306.00	25,040.00
FARM EXPENSES						
FARM EXPENSES - CASH	109,525.00	86,843.00	6,557.00	1,756.00	2,297.00	12,072.00
FARM EXPENSES - NON-CASH EXPENSE ADJUSTMENTS	130,371.00	98,550.00	11,245.00	2,709.00	2,536.00	15,331.00
GROSS FARM EXPENSES	239,896.00	185,393.00	17,802.00	4,465.00	4,833.00	27,403.00
NET FARM INCOME FROM OPERATIONS	(75,646.00)	(63,634.00)	(5,422.00)	(1,700.00)	(2,527.00)	(2,363.00)
Net Income RISK Analysis						
NET Enterprise CASH INCOME (cash income - cash expenses)						
Minimum	14,397.00	15,115.12	1,071.64	(478.46)	(1,019.30)	(292.00)
Most Likely	54,725.00	34,916.00	5,823.00	1,009.00	9.00	12,968.00

FOR MORE INFORMATION

RightRisk.org offers numerous courses and user-friendly tools to assist with your risk management needs. The Analytics toolbox, for example, contains seven interactive tools covering a wide range of risk management topics such as enterprise budgeting, machinery costs and financial analysis. To learn more about how risk management applies to enterprise planning, check out the enterprise risk analysis course, along with the Enterprise Risk Analyzer tool. These resources are designed to help new producers better understand how the various enterprises in their operation work together.