

How Farm Management Consultants Can Help You

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Farm management (or business) consultants are relatively new to the farm scene in Canada. They started to appear after Agriculture and Agri-Food Canada (AAFC) passed the Farm Debt Mediation Act in 1997. From 1998 to 2009, AAFC offered the Farm Consultation Service and the Canadian Farm Business Advisory Service. So these government programs helped to foster the era of farm management consultants.

It might be said that this development paralleled the shift from farms with relatively low capital investments to larger farms that require much more capital and other inputs. With larger financial investment comes more risk and a greater chance of financial distress if finances are not managed well. Thus, farmers started to turn to farm management consultants in much the same way as they've engaged crop consultants, nutritionists and other advisors.

So what are some of the services that farm management experts provide and why might you use one? If you have an accountant, lawyer and banker on your advisory team already, what can a management consultant provide?

They usually start by doing a business overview, defining your goals and then preparing

a business plan. Many farmers rely on lenders for financial advice, but remember that lenders' loyalties are to their employer. Accountants usually deal with historical data such as last year's income tax return or financial statement, and thus may not really be good at preparing forward-looking projections unless they have specialized training in that area.

A business plan has three main parts:

1. Where you have come from — a history of the farm
2. Where you and your farm family/team are now, financially, operationally, marketing-wise, risk management-wise, labour- and machinery-wise etc.
3. Where you and your family/team want to be in the short term (1-5 years) and long term (5-10 years.)

By examining your present financial situation and entering asset and liability information into an analysis program, the management consultant can get a good idea of your starting financial situation by calculating various business ratios. They will examine your income (and expense) statement for the last three to five years to see how your operation is trending in actually making money and how much.

The next step is to meet with the rest of your family/team, elicit individual goals, develop goals for your farm and do some forward projections. For example "what if" you were to buy or rent more land, buy some new(er) machinery, diversify your operation, consolidate debt, sell some assets or make some other changes? It's important for you to know how changes in your operation would likely "shake out" before you implement them. It's also important that you get the rest of your family/team to agree to any changes you contemplate before you implement them.

Once you have decided what changes you

wish to make to your operation, the management consultant can prepare several alternative scenarios. This is called sensitivity analysis. For example: what if market prices dropped 10 or even 20 per cent, what if costs rose 10 or 20 per cent or worse, what if market prices dropped and costs rose? The important thing to know with any of these scenarios is "can you still make all your payments on time, have enough money for family/team living expenses and have a 20 per cent (at least) safety margin in your proposed income?"

If you need a new loan for a significant new purchase or consolidation you should have a business plan prepared that provides the three parts mentioned above and provides the detailed projections for your chosen course of action. Then, present the plan to your main lender and one or two others. Some consultants can even do this for you. By doing this you are in effect shopping for financial services which should be no different than shopping for any other farm inputs.

So you can see that farm management consultants can perform many tasks for you that you may not have the expertise or desire to do yourself. When you enlist them, you are their primary and only interest. They are another one of the advisors you should seriously consider having on your farm team.

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