



Managing Your Farm's Critical Control Points

Norm Brown

Definitions

- **Business management control point:** Sub-system with its own structure and functions (within the main process or system) from where full or partial control can be exercised over the entire process or system.
- **Critical control point (CCP)** is a point, step or procedure at which **controls** can be applied and a food safety hazard can be prevented, eliminated or reduced to acceptable (critical) levels.
 - Component of HACCP (*Hazard Analysis & Critical Control Points*).



Reality of American Agriculture

- Very independent.
- Little standardization (even within companies).
- Disparate / “provincial” information technology sources.
- Small market in comparison to other industries.
- Business scale and complexity are increasing exponentially.



Reality of American Agriculture

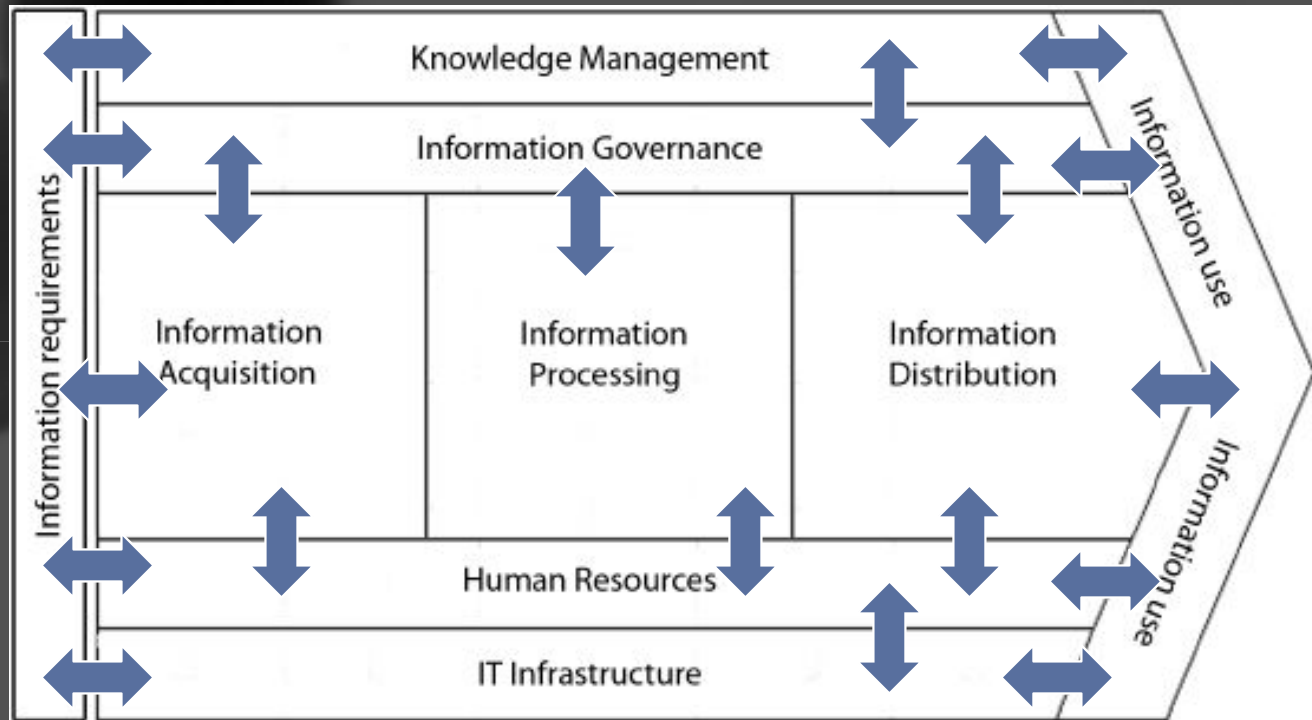
- Results (negative):
 - Inefficiencies.
 - Can't take advantage of economies of scale.
 - Many still searching for the "holy grail."
 - We're constantly de-bugging unique scenarios.
- Results (positive):
 - We can be close to our customers.
 - Respond more readily to their needs.
 - Allows us to see the big picture.
 - Accomplishing goal of "financial control center."



Company Culture

- Key predictor of success/failure.
- Begins with owners/senior managers.
- “Culture of information accumulation.”
- Realistic expectations.
- Willingness to adapt.
- No weak links in “information value chain.”
- Eager to come to this conference!

Information Value Chain



Schwolow & Andersen



CFO / Controller

- Must understand the system, not just final product.
 - Industry.
 - Idiosyncrasies of accounting/production model.
 - Idiosyncrasies of software.
- Willing to make changes to enhance efficiencies and control that leverage information technology.

Crop Information Requirements

Company Name		
Legal Structure		
Fiscal Year (Start)		
Production Phase		
Employees		
Departments/Activities	G&A	
Financing		
Sales & Marketing		
General Farm		
Agronomy /Scouting		
Production Records		
Production Management		
Tillage		
Planting		
Cultivation		
Spraying		
Harvesting		
Crop Processing		
Crop Storage		
Trucking		
Shop & Maintenance		
Crop 1		
Crop 2		
Crop 3		
Crop 4		
Financial reporting frequency		
Financial reporting basis		
Inventory Valuation Method		
Relation w/ other entities		
Consolidated financial reporting		
Consolidated production reporting		
Current Accounting Software		
Accounting Firm		

Pork Information Requirements

Company Name		
Legal Structure		
Fiscal Year (Start)		
Production Phase		
Employees		
Departments/Activities	G&A	
Financing		
General Pork		
Veterinary Services		
Production Records		
Breeding Production Management		
Nursery Production Management		
Finishing Production Management		
Internal Pig Transportation		
External Pig Transportation		
Feed Transportation		
Feed Processing		
Nutritional Services		
Nutrient (Manure) Management		
Boar Stud		
Powerwashing Crew		
Sorting/Loading Crew		
Maintenance Crew		
Financial reporting frequency		
Financial reporting basis		
Inventory Valuation Method		
Relation w/ other entities		
Consolidated financial reporting		
Consolidated production reporting		
Accounting Firm		

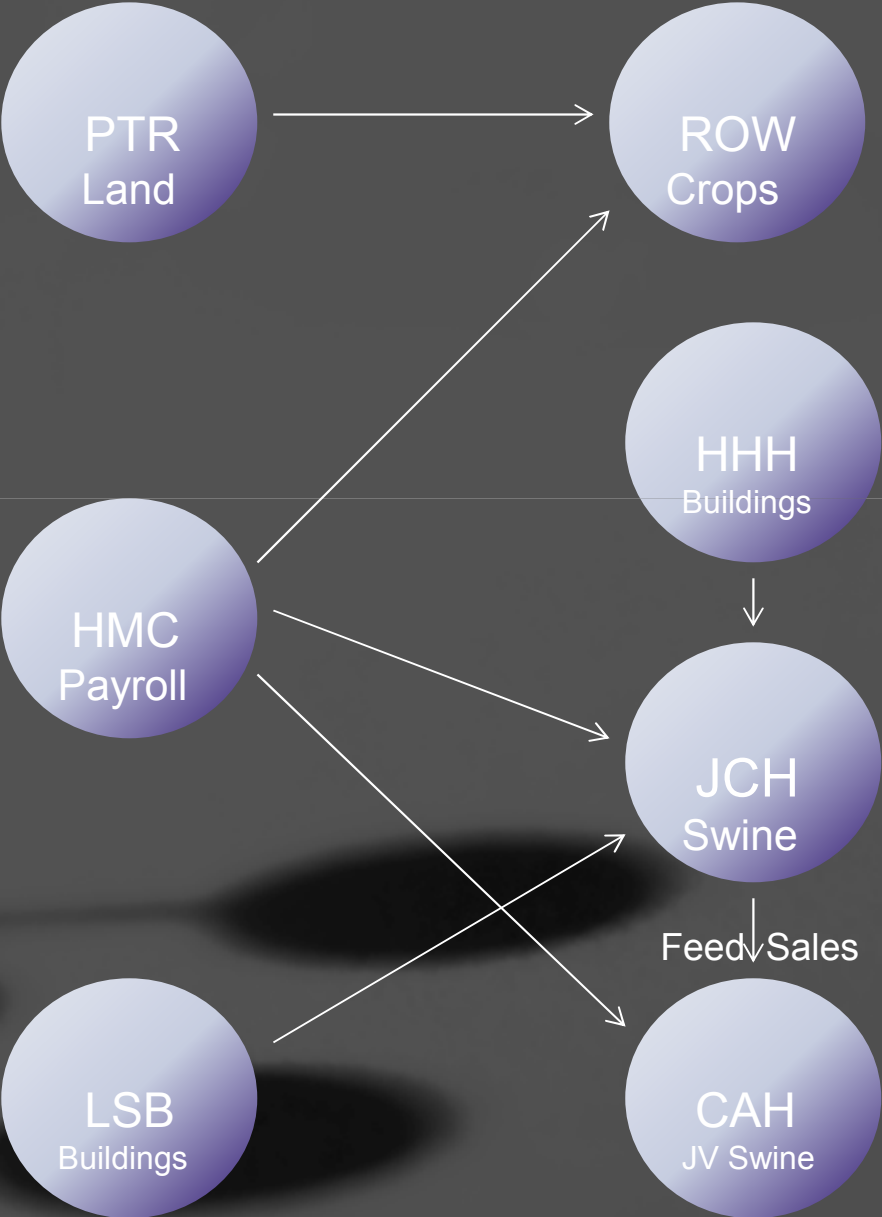
Crop Information Requirements

Farm Name				
Operator				
Land Owner if Owned				
Landlord if Rented				
Rent Payment				
Payment Basis				
Payment Frequency				
Irrigation Type				
Field 1 Name				
Tillable Acres				
FSA #				
Field 2 Name				
Tillable Acres				
FSA #				
Field 3 Name				
Tillable Acres				
FSA #				
Field 4 Name				
Tillable Acres				
FSA #				
Field 5 Name				
Tillable Acres				
FSA #				
Field 6 Name				
Tillable Acres				
FSA #				
Field 7 Name				
Tillable Acres				
FSA #				
Field 8 Name				
Tillable Acres				
FSA #				
Field 9 Name				
Tillable Acres				
FSA #				
Field 10 Name				
Tillable Acres				
FSA #				
Input Supplier 1				
Input Supplier 2				
Input Supplier 3				
Elevator/Buyer				

Pork Information Requirements

Farm Name						
Livestock Owner						
Facility Owner if Owned						
Grower if Contracted						
Rent Payment						
Payment Basis						
Payment Frequency						
Pig Source						
Animal Flow						
Cost/Profit Center?						
Location 1 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Location 2 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Location 3 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Location 4 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Location 5 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Location 6 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Location 7 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Location 8 Name						
Animal Capacity						
Feed Capacity (T)						
Closeout?						
Closeout by Sex?						
Feed Mill 1						
Feed Mill 2						
Feed Mill 3						
Animal Health Method						
Packer						
Corporate	Packers	Feed Mills	Sow Herds	Nurseries	Wean-Finish	Conventional Finishers

Entity Flow Chart



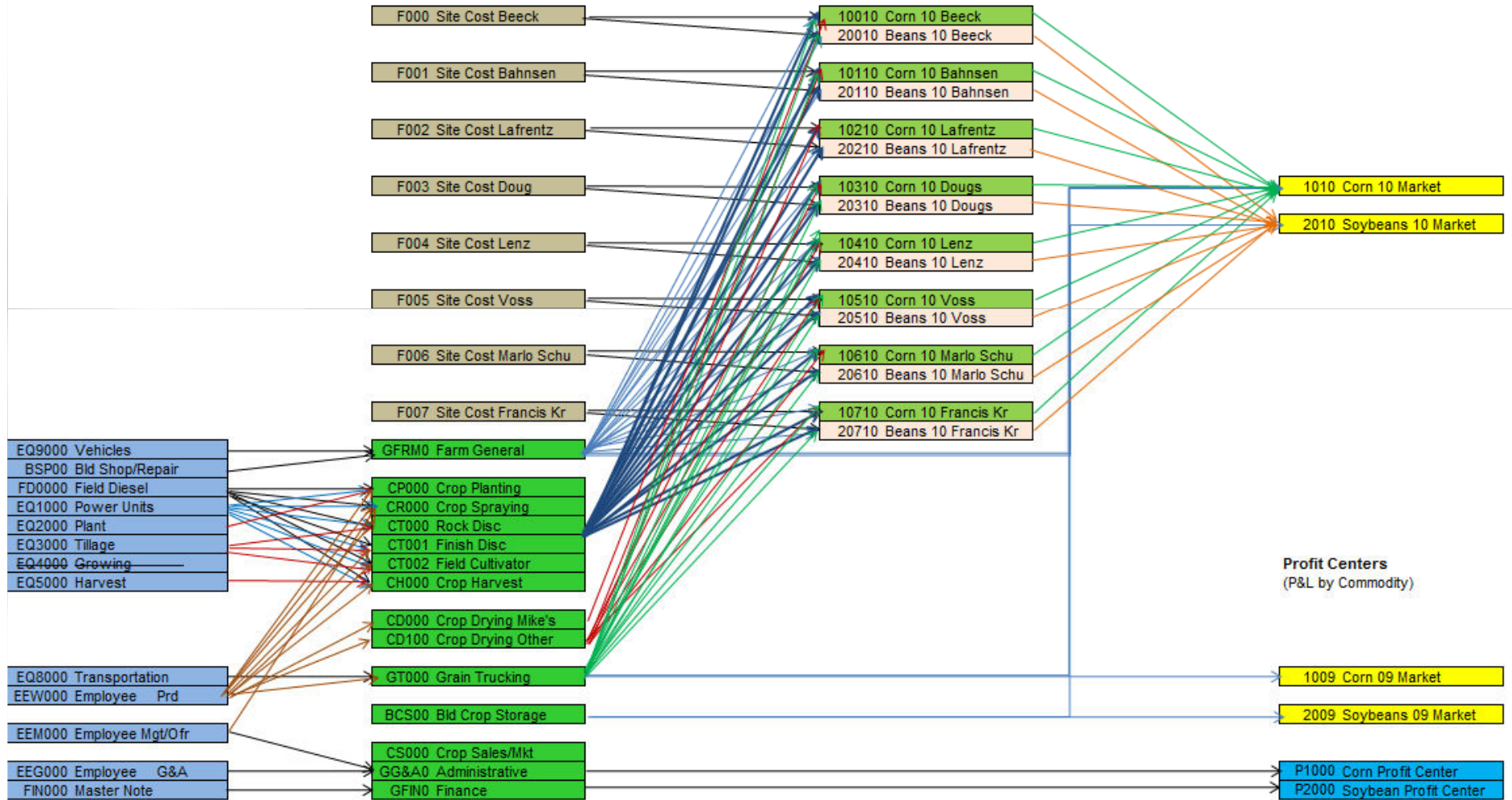
Corn-Soybean Farm Flow Chart

Service (S) Centers
(Allocated by Annual %)

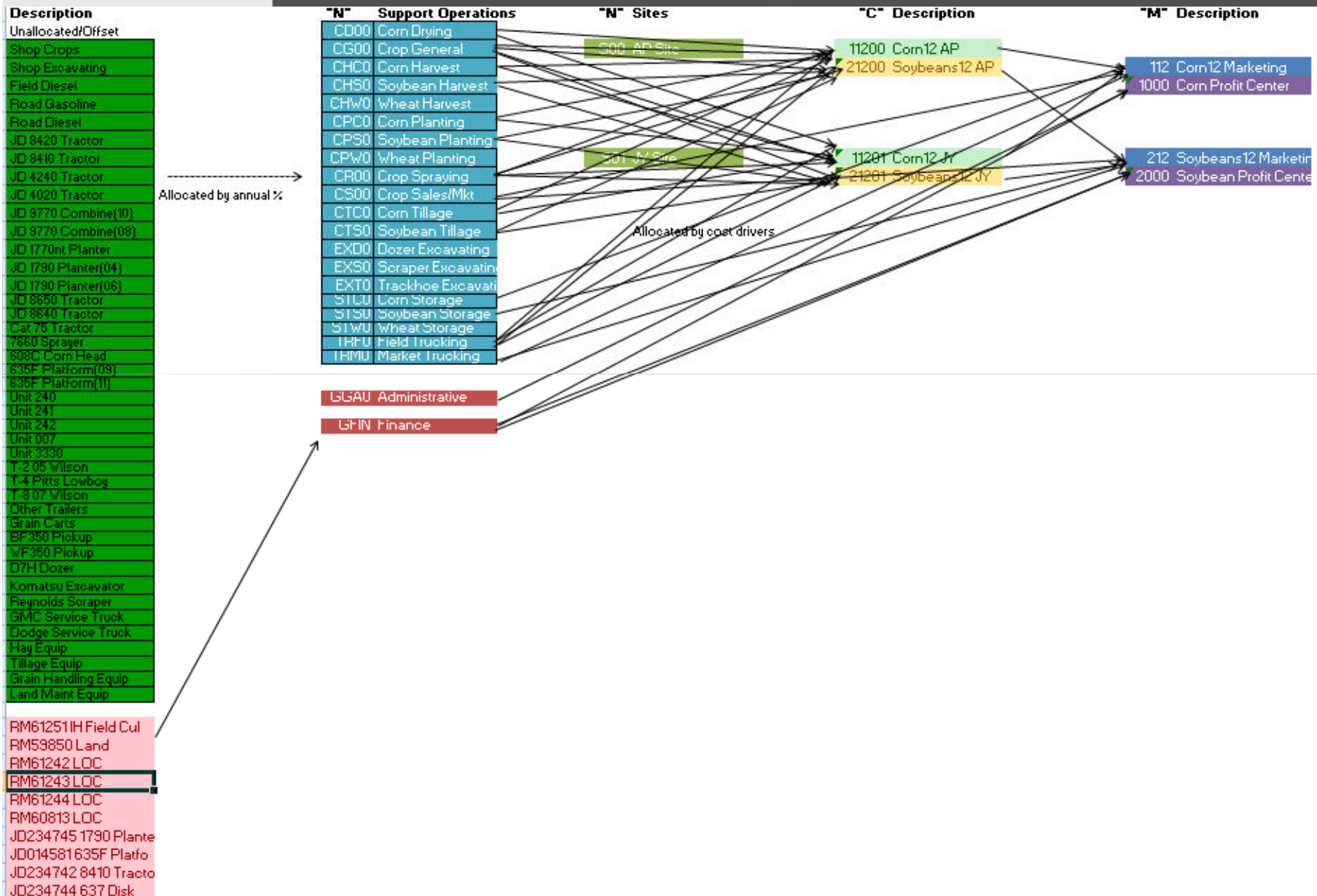
Consolidating (N) Centers
(Allocated by Cost Drivers)

Production (C/WIP) Centers
(Transferred to Marketing At Harvest)

Marketing (M) Centers
(Sales & PL by Crop Year)



Corn-Soybeans-Wheat-Construction



Hog Farm Flow Chart



Assumptions

"It ain't what you know that gets you in trouble, it's what you know for sure that just ain't so."

Mark Twain

(or maybe it was Abe Lincoln or Will Rogers)

"Let's not make decisions based on isolated, arbitrary assumptions such as indirect cost allocations."

Paul Nieffer CPA

from "Is Your Margin Analysis Lying to You?"

http://www.agweb.com/article/the_farm_cpa_is_your_margin_analysis_lying_to_you



Trading Partners

- Your detail is more important to you than them.
- Just because they're big doesn't mean they're accurate.
 - Field identification.
 - Group identification.
 - Multiple departments / unintegrated software.
 - Timing.



Timing

- Lackadaisical vendors.
- Crop insurance.
- Red Box.
- Patronage refunds.
- Seed rebates.
- Closed periods?



Precision vs. Accuracy

“It is the mark of an educated mind to rest satisfied with the degree of precision which the nature of the subject admits and not to seek exactness where only an approximation is possible.”

Aristotle



Optimal Level of Granularity

- GIS vs. accounting.
- Happy medium between production and accounting?
- Determined by what segments you can manage.
- Start with biggest \$ -→ smallest \$
- The “smell test.”



Inventories

- Only right if you don't check them.
- Biggest stumbling block for managerial accounting.
- Multiple systems.
 - Rings
 - Grain Trak
 - FBS
- Tip: Monitor unit prices.

Control at Work

- Sales without cash.
- Cash without sales.
- 139 head or 150 head?
- What can go wrong, will go wrong.
- Date Entered, Date Edited, Who entered, Who edited.
- Permission levels.
- Closing periods.

Replication

- FBS user base.
 - FFSC chart of accounts.
 - FFSC segments (centers).
- Internal.
 - Master “push” chart of accounts.
 - Master “push” center list.
 - “Push” ingredients, rations, groups, projects, etc.
- You will some day “pay the price” for inconsistency.



Automation

- Batch Reporting.
- Dashboards.
- Data collection.



variance

- There will be variances.
 - With external benchmarks.
 - Between budget and actual.
 - Between internal information systems.
 - Between physical and computer.
 - Internal “slippage” and “shrinkage.”
 - Between vendors’ measurements and yours.
- Adjust at “high” or “low” levels?
- Variance accounts vs. fixing detailed entries.



Monitoring Reports

- Trial Balance Report.
- Check Reconciliation Report.
- Account Summary Budget Comparison.
 - LifeCycle monitors quantities as well as dollars.
- Inventory reports.
- Inventory Valuation Current Detail Report.
- Standard Cost/Vendor Monitor Report.
- Consolidated Cost Analysis Report.

Reporting or Running the Company?

- Most common practice:
 - “Big bucket” accounting.
 - Parallel detailed production records.
- How many **versions of the truth**?
- **Accounting** is the core control process in any business.
- **Planning, action and performance monitoring** must ultimately be valued in **actual dollars**.
- If a segment can be **managed** it should also be evaluated as a **cost or profit center**.
- To be in **control**, there must be a true **tie-out** between the **balance sheet, income statement and actual inventories**.



Where FBS Fits In

- Technology: Integration, Automation, Replication.
- Consulting: Best Practices from similar operation.
- Adapting our system to meet your unique needs.
- Partnering with complementary technologies.
- Maintaining our and your independence.
- When the focus is on your business.
- Our vision: Your farm's financial "control center."

“Theory of Everything”

