



Ratios to Determine Marketing Success

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Ratio 101

- The Sweet 16 has become 21
- Farm Financial Standards Council
- Why not use cost of production?

Category #1

- Liquidity
 - Current Ratio
 - Working Capital
 - Working Capital to Gross Revenues

Category #2

- Solvency
 - Debt to Asset
 - Equity to Asset
 - Debt to Equity

Category #3

- Profitability
 - Rate of Return on Assets
 - Rate of Return on Equity
 - Operating Profit Margin
 - Net Farm Income
 - EBITDA

Category #4

- Repayment Capacity
 - Capital Debt Repayment Capacity
 - Capital Debt Repayment Margin
 - Replacement Margin
 - Term Debt Coverage Ratio
 - Replacement Margin Coverage Ratio

Category #5

- Efficiency
 - Asset Turnover Rate
 - Operating Expense Ratio
 - Depreciation Expense Ratio
 - Interest Expense Ratio
 - Net Farm Income Ratio

The Whole Farm Concept

- Use hindsight to review your marketing success
- Use individual cost of production to develop a marketing plan
- Use ratio analysis to determine your success as a crop marketer

Look at the Efficiency Ratios

- Especially Operating Expense
- Measures the balance between inputs and outputs
- If your ratios are poor, what was the reason?
 - Production problems?
 - Poor marketing?
 - Unforeseen expenses?

Ratios Have to Equal 100

• Operating Expense	70%
• Depreciation Expense	5%
• Interest Expense	5%
• Net Farm Income	<u>20%</u>
	100%

What did you need?

- Your Farm Grossed \$100,000
- Operating Expense were \$75,000
- What could you have done to cut expense/raise income?
- Could you improve your marketing?
- How many cents/bu did you need?

Calculations

- Cash Expenses were \$75,000
- Gross Income was \$100,000
 - 20,000 bu of wheat at \$5.00
- You need to gross \$107,000 in order to have a 70% operating expense ratio
 - \$.35 more per bushel

Efficiency Ratios

- Measures all levels of farm efficiency
- What is the easiest way to increase revenue or decrease expenses?
- Did your additional expense “pay”?

Profitability Ratios?

- Profitability ratios measure the amount of profit generated by your assets and equity
- What kind of return are you expecting from your farm?

Calculations

- Assets of \$500,000
- Net Farm Income of \$30,000
 - 6% ROA
- Net Farm Income of \$40,000
 - 8% ROA

Hindsight

- What if you would have received another \$.25 bu for wheat? How would that added income affect your ratios?
- Use it for planning when you develop your cash flow

Hindsight

- If you are not profitable, or as profitable as you would like, can you use the ratios to determine why?

Set your ratio targets

- Still can't wait for the top to sell
- Sell when it is profitable
- You never go broke selling at a profit

One Piece of the Puzzle

- Marketing is not the only thing that can improve your ratios, but it is one piece of the puzzle