THE CSA BENCHMARK PROJECT:
How Well Is My Operation REALLY Doing?

May 17, 2012
Presentation Outline

- Technical Orientation

- NGFN Overview
  
  **Jeff Farbman**
  *Wallace Center at Winrock International*

- The CSA Benchmark Project

- Questions and Answers

- Upcoming Opportunities, etc.
Moving more good food to more people
NATIONAL GOOD FOOD NETWORK: VISION
NATIONAL GOOD FOOD NETWORK: GOALS

Supply Meets Demand
• There is abundant good food (healthy, green, fair and affordable) to meet demands at the regional level.

Information Hub
• The National Good Food Network (NGFN) is the go to place for regional food systems stories, methods and outcomes.

Policy Change
• Policy makers are informed by the results and outcomes of the NGFN and have enacted laws or regulation which further the Network goals.
Study and support regional aggregation and distribution entities “food hubs” across the country.

- Collaborate with USDA AMS, PPS, NAPMM and others
- Create a Resource Guide (Spring 2012)
- Establish and support a food hub Community of Practice
- Convene hub managers and supporters
- Provide technical assistance
- Document and communicate impacts, innovations, and models of success

- [http://foodhub.info](http://foodhub.info)
FIELD GUIDE TO THE NEW AMERICAN FOODSHED

Provide example-based education to producers and other participants in the food system to increase access to capital.

• Explain new opportunities for success in today’s market
• Illustrated by case studies
• Lenders can learn that their innovative investment is solid
• Comprehensive outreach program

• [Website Link]
• November 2011 NGFN webinar – [Webinar Link]
EVALUATING AND IMPROVING EDUCATIONAL INSTRUMENTS AND OUTREACH FOR BEGINNING FARMERS

Increase effectiveness of financial skills and business literacy of beginning farmers by supporting trainers.

- Collaboration with Farm Credit
- Collect a “toolkit” of top-quality resources
- Create and nurture a Community of Practice for trainers
- Create a rubric for evaluating training programs
- Targets the Southern US states
NATIONAL GOOD FOOD NETWORK: VISION
NATIONAL GOOD FOOD NETWORK: LOCATIONS
NATIONAL GOOD FOOD NETWORK

www.ngfn.org
contact@ngfn.org

... and for the Food Hub Collaboration:

www.foodhub.info
contact@foodhub.info
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• The CSA Benchmark Project

Gary Matteson
Farm Credit Council

Erin Pirro
Farm Credit East

• Questions and Answers

• Upcoming Opportunities, etc.
The CSA Benchmark Collaborative
How Well is My Operation REALLY Doing?

Gary Matteson
The Farm Credit Council

Erin Pirro
FARM CREDIT EAST
What is a “Benchmark”? 

comparison to set standard

Think of it in 3 Parts:

Analysis ・ Comparison ・ Improvement
What goes into a benchmark?

• Good financial records
• Operational information
• Can also include production measures, safety ratings, human resources practices
• Input from member businesses
Types of Benchmarks

- Historical Comparison
- Business Standards
- Comparison to Peers
- Goals
- Competition in the Market
Important Benchmark Characteristics

• **Standardization**
  “Apples to Apples” or “Mums to Mums” comparisons

• **Progressive Owners/Managers**
  Willingness to contribute data and share ideas
  Desire to achieve

• **Each operation’s data is confidential!**

• **A financially sound Ag Industry is good for all**
Benchmark Outputs

- *Must* be USEFUL
- Measurable
- Determine industry trends
- Help develop your focus
<table>
<thead>
<tr>
<th>What can we track?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Sales</td>
</tr>
<tr>
<td>Revenue Growth</td>
</tr>
<tr>
<td>Gross Markup</td>
</tr>
<tr>
<td>Gross Margin</td>
</tr>
<tr>
<td>Overhead</td>
</tr>
<tr>
<td><strong>Net Margin</strong></td>
</tr>
<tr>
<td>Net Worth</td>
</tr>
<tr>
<td>Safety</td>
</tr>
<tr>
<td>Environmental Compliance</td>
</tr>
<tr>
<td>Labor Hours</td>
</tr>
<tr>
<td>Labor Efficiency</td>
</tr>
<tr>
<td>Allocation of Duties</td>
</tr>
<tr>
<td>Compensation and Benefits of</td>
</tr>
<tr>
<td>Key Labor Positions</td>
</tr>
<tr>
<td>Trends (with the business)</td>
</tr>
<tr>
<td>Per Share</td>
</tr>
<tr>
<td>Transaction</td>
</tr>
<tr>
<td>Per Acre</td>
</tr>
</tbody>
</table>
Improve your focus

• What’s your biggest expense?
• What should it be?
• What does everyone think they should cut first?
• But what if the problem is shrink?
• Or crop turns?
• Or allocation of that labor?

A benchmark can tell you that.
CSA Farms

- CSA members (customers) buy a ‘share’ in this year’s farm production
- Product is generally distributed once a week through a 3-6 month season
- Payment typically received before the season begins (better liquidity)
- Typically vegetable-oriented
  - Think about add-ons and treat each as an enterprise!
    - flowers, meat, deep winter, eggs, herbs
Sort Expenses - Variable (COGS) vs. Fixed (Overhead)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Production or retail labor</td>
<td>Depreciation</td>
</tr>
<tr>
<td>• Inputs – seed, plants,</td>
<td>Interest</td>
</tr>
<tr>
<td>fertilizer, chemicals</td>
<td>Repairs</td>
</tr>
<tr>
<td>• Delivery-related costs</td>
<td>Taxes</td>
</tr>
<tr>
<td>• Credit card fees</td>
<td>Insurance</td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
</tr>
<tr>
<td></td>
<td>Rent or Lease</td>
</tr>
<tr>
<td></td>
<td>Don’t forget</td>
</tr>
<tr>
<td></td>
<td>Owner/Management</td>
</tr>
<tr>
<td></td>
<td>Labor!</td>
</tr>
</tbody>
</table>
Five-Line Income Statement

Create a Five-Line Income Statement to turn a bunch of numbers into a snapshot of your business performance.

This is part of your One-Page Business Plan! www.foodshedguide.org

Gross Sales $1.00
Less COGS - .58
Equals Gross Margin .42
Less Overhead Costs - .28
Equals Net Margin .14
Develop a budget to ensure you are valued.

1) Use last year's records as a starting point for your five-line income statement. If you're starting a new operation, plenty of information is available!

For example:
- http://agalternatives.aers.psu.edu/
- http://cdp.wisc.edu/Budgets,%20Sped%20&%20Programs.htm
- http://www.ces.uga.edu/Agriculture/agecon/printedbudgets.htm

Make sure you take regional cost differences into account (land rent is a good example of this.)

2) Calculate your five-line income statement.

COGS = any expense that helps produce one more unit of output.
Production labor and associated payroll expenses, including workman’s compensation, unemployment taxes, FICA, Medicare, health insurance
Crop or livestock inputs – seed, fertilizer, soils, chemicals, feed

Overhead = any expense that you incur no matter how much production you actually have.
The main ones are the **DIRTI** Five:
Depreciation, Interest, Repairs, Taxes, Insurance
Don't forget to include Managers' and Bookkeepers' wages/salaries, marketing, and utilities.

3) Calculate the percent of sales for each line.

(Divide the dollars for each line by the total sales.)

<table>
<thead>
<tr>
<th>Historical</th>
<th>Dollars</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales: $</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>- Cost of Goods Sold: $</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>= Gross Margin: $</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>- Overhead $</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>= Profit (Net Income) $</td>
<td>%</td>
<td></td>
</tr>
</tbody>
</table>

4) Create your budget—from the bottom up. Start with your desired draw (the amount you and your family need to take from the operation to live on, plus income taxes). Add the principal portion of any loan payments you need to make in 2011 to get the total profit needed from the operation.

5) Add your overhead expenses to the required profit to figure the gross margin the operation will need to yield. Your overhead expenses shouldn't change much from the previous year, unless you've undergone a significant expansion or other major change.

6) Determine the breakeven sales needed in your operation to support the overhead obligations and profit required. Do this by dividing the gross margin (E) by the gross margin as a percent of sales (taken from your records, calculated in step 3).

7) Step back and see if this budget makes sense. Is this sales volume reasonable for this year, especially if it's your first year in business? Is it possible for the acreage you raise and the market prices of your products? If it is, great! Develop a marketing plan (action plan) to achieve that level of sales. If not, that's okay. Rework until you have a plan that is sound. If this is a building year, how will you achieve your goal (and finance the operation in the meantime)? Address these questions early in the year to ensure you have a complete plan.

2011 BUDGET

<table>
<thead>
<tr>
<th></th>
<th>Dollars</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner Draw Desired</td>
<td>$</td>
<td>(A)</td>
</tr>
<tr>
<td>(include income taxes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank principal payments required:</td>
<td>$</td>
<td>(B)</td>
</tr>
<tr>
<td>TOTAL PROFIT REQUIRED: (A+B) $</td>
<td>(C)</td>
<td></td>
</tr>
<tr>
<td>Overhead expenses $</td>
<td>(D)</td>
<td></td>
</tr>
<tr>
<td>GROSS MARGIN REQUIRED: (C+D) $</td>
<td>(E)</td>
<td></td>
</tr>
<tr>
<td>COGS $</td>
<td>(F)</td>
<td></td>
</tr>
<tr>
<td>SALES VOLUME REQUIRED: $/[(E/E as % of sales—from historical)]</td>
<td>(G)</td>
<td></td>
</tr>
</tbody>
</table>
### Compare Results to Benchmark

#### Before management analysis:

<table>
<thead>
<tr>
<th>Category</th>
<th>Income</th>
<th>Expenses</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$100,000</td>
<td>$115,000</td>
<td>($15,000)</td>
</tr>
<tr>
<td>COGS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Margin</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### After management analysis:

<table>
<thead>
<tr>
<th>Category</th>
<th>Income</th>
<th>Expenses</th>
<th>Profit</th>
<th>% of Sales</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$100,000</td>
<td></td>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>COGS</td>
<td>$55,000</td>
<td></td>
<td></td>
<td>55%</td>
<td>58%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>$45,000</td>
<td></td>
<td></td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>Overhead</td>
<td>$60,000</td>
<td></td>
<td></td>
<td>60%</td>
<td>28%</td>
</tr>
<tr>
<td>Profit</td>
<td>($15,000)</td>
<td></td>
<td></td>
<td>-15%</td>
<td>14%</td>
</tr>
</tbody>
</table>
## Compare Results to Benchmark

<table>
<thead>
<tr>
<th></th>
<th>Year 2 Results!</th>
<th>% of Sales</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$200,000</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>COGS</td>
<td>$112,000</td>
<td>56%</td>
<td>58%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>$90,000</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>Overhead</td>
<td>$60,000</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>Profit</td>
<td>$30,000</td>
<td>15%</td>
<td>14%</td>
</tr>
</tbody>
</table>
### Compare Results to Benchmark

<table>
<thead>
<tr>
<th></th>
<th>% of Sales</th>
<th>Per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>13% - 15%</td>
<td>$2,400 - $2,600</td>
</tr>
<tr>
<td>Interest (overhead)</td>
<td>1% - 2%</td>
<td>$300 - $350</td>
</tr>
<tr>
<td>Rent (overhead)</td>
<td>2% - 3%</td>
<td>$325 - $375</td>
</tr>
<tr>
<td>Repairs (overhead)</td>
<td>5% - 6%</td>
<td>$850 - $1,000</td>
</tr>
<tr>
<td>Insurance (overhead)</td>
<td>1% - 2%</td>
<td>$300 - $350</td>
</tr>
<tr>
<td><strong>Total Overhead</strong></td>
<td>24% - 26%</td>
<td>$3,900 - $4,300</td>
</tr>
<tr>
<td>Gross Margin (after COGS)</td>
<td>40% - 42%</td>
<td>$6,600 - $6,900</td>
</tr>
<tr>
<td><strong>Total Cost of Goods (COGS)</strong></td>
<td>58% - 60%</td>
<td>$9,500 - $10,000</td>
</tr>
<tr>
<td>Hired Labor Expense (hybrid)</td>
<td>33% - 35%</td>
<td>$6,200 - $6,500</td>
</tr>
<tr>
<td>Crop Inputs (COGS)</td>
<td>15% - 17%</td>
<td>$2,500 - $2,700</td>
</tr>
<tr>
<td>Purchases for Resale (COGS)</td>
<td>7% - 9%</td>
<td>$1,200 - $1,600</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>$18,000 - $20,000</td>
</tr>
</tbody>
</table>
Our Action Plan

• Review of Benchmark gives areas of S-W-O-T
• Pick 3 and prioritize!
• Start with your 1st priority:

  Labor costs are too high (% of sales)

  at 45% instead of the 33% - 35% the benchmark tells us is a good target

What next?
Our Action Plan

• Examine labor costs in different ways:
  
  • cost per worker equivalent
    – We spend $30,000 on a full-time equivalent if the benchmark is $30,500
    Conclusion: We’re spending an average amount per worker

  • hours worked per acre
    – We put 345 labor hours in per acre if the benchmark is 350
    Conclusion: Our workers are slightly better than average at efficiency

  • sales per worker equivalent
    – Our workers generate $50,000 of income per full-time equivalent; if the benchmark is $75,000
    Conclusion: We’re not selling enough (stuff or dollars?)

Boost sales efficiencies!

  Increase prices?  Change product mix?
  Add value?  Sales training for staff?
Measure Sales Efficiency

• Track changes in output over time
  – By day, week, year
  – By divisions

• Track changes in cost over time
  – Compare labor cost increase to gross sales increase

What gets measured gets managed.
How Farmers Feel about Benchmarking

• Progressive business owners are hungry for this information
• They love to share strategies with each other
• The Top Performers tend to:
  – Price more aggressively
  – Manage labor and other costs more carefully
  – Maximize the customer’s experience
  – Retire with 7 times the net worth of those who don’t plan
• Use this information to develop an action plan that works.
Confidence

• Have it in your numbers!
  – *Things your need to do to engage in benchmarking*

• Compare your performance against budget
  – *actually look at them regularly (monthly at minimum!)*

• Manage from the plan

• These are not for your accountant or for the IRS – they are for you!
Questions and Answers

Gary Matteson
VP Young, Beginning, Small Farmer Programs and Outreach
50 F St. NW, Suite 900
Washington, DC 20001
(202) 879-0840
matteson@fccouncil.com
FCCCouncil.com

Erin Pirro
Farm Business Consultant
240 South Road
Enfield, CT 06082
(860) 741-4380
erin.pirro@farmcrediteast.com
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Webinars are Archived

TOPICS!

http://ngfn.org/webinars
NGFN Webinars

- 3rd Thursday of each month
  3:30p EST (12:30p PST)

- May 31 – The One Page Business Plan (at 9 AM!)
- June 21 – Grass-Based Beef: The Business Case
- July 19 – Grass-Based Dairy: Healthy Animals, Planet and Business Bottom Line

http://ngfn.org/webinars
Three Notable Websites

- **www.FoodHub.info**
  - Food Hub “hub”
  - Research, case studies, list and map of hubs across the country, much more.

- **www.HUFED.org**
  - About the initiative
  - Grantee profiles
  - Library of many of the best food access resources

- **www.FoodshedGuide.org**
  - Case study-based business and financial training
  - Includes a “One Page Business Plan” and a “One Page Financial Plan”
Get Connected, Stay Connected

http://ngfn.org/database

National Good Food Network Database
Click to learn more

Search for: Wallace Center

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