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Farm management extension guide

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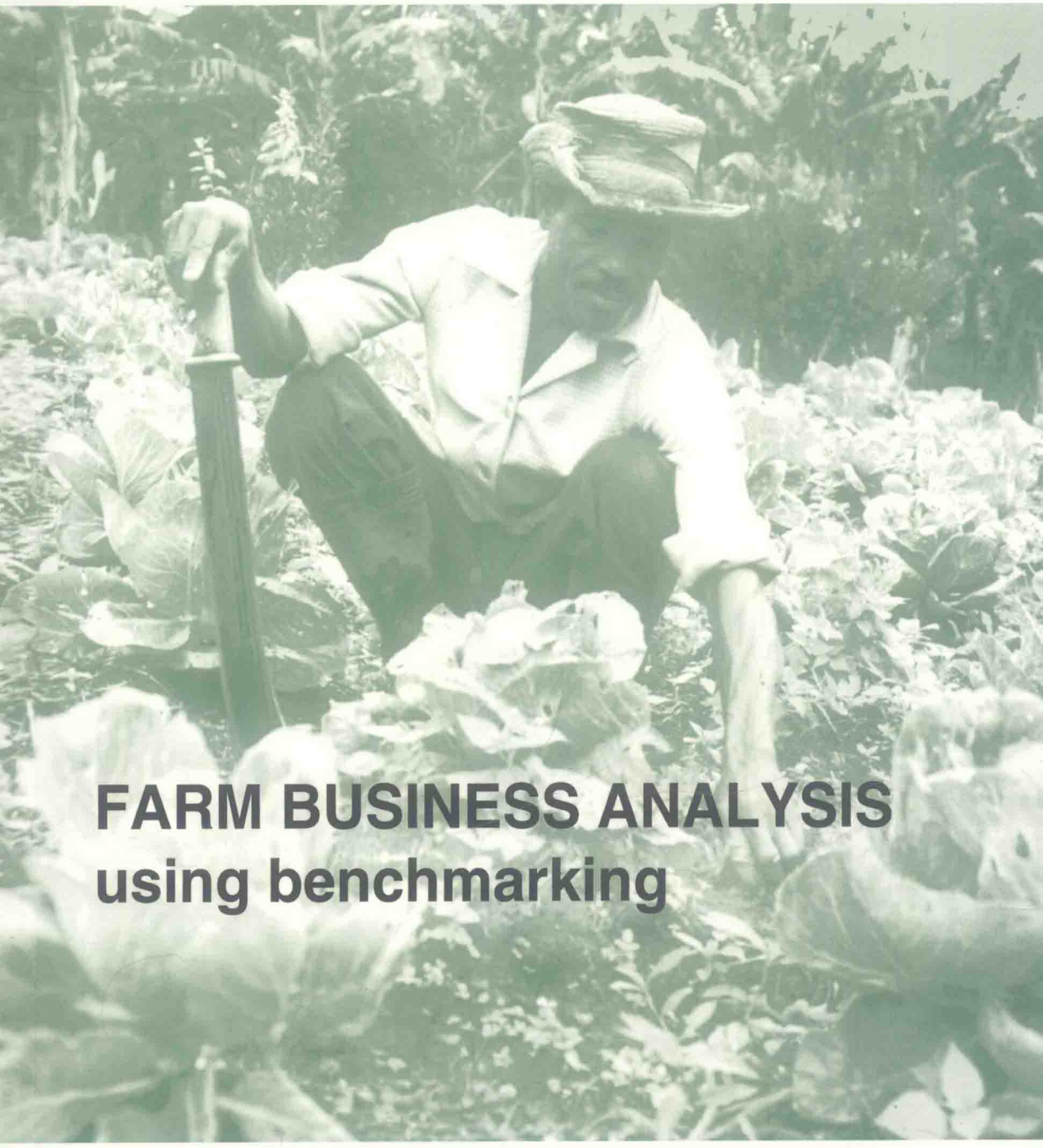

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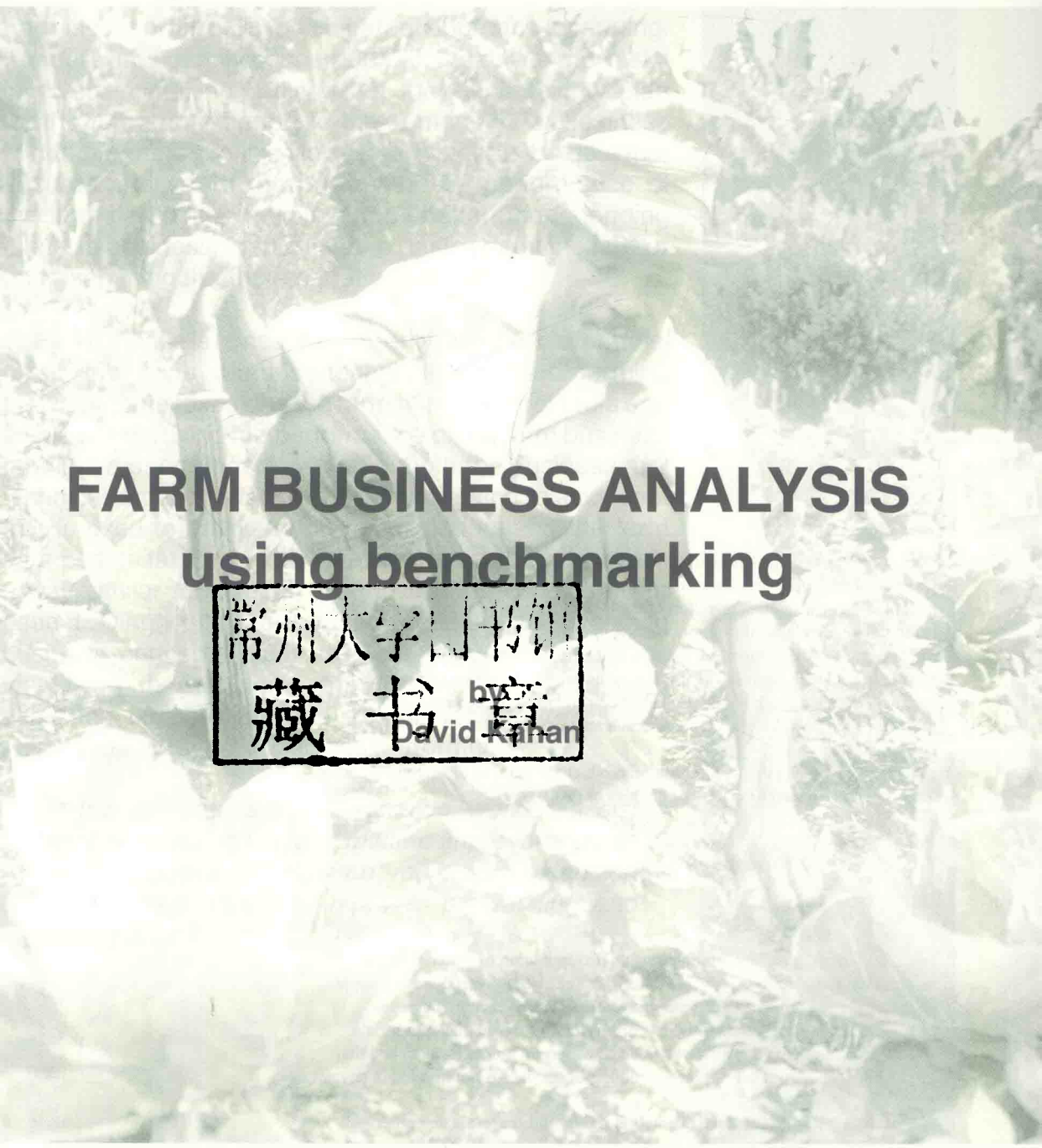

FARM BUSINESS ANALYSIS
using benchmarking

常州大学山书馆
藏书章

by
David Kahan

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
Rome 2010

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Preface

Farming for profit calls for a different approach to farming. Farmers are not only concerned with the day to day tasks involved in making a living but they increasingly plan for the future in an effort to make money. For business minded farmers profit is viewed as the goal; the goal that ensures survival of the business. The performance of the farm can best be explained by better understanding the farm business, identifying the goals set by the farmer and examining the factors that affect them.

Performance is concerned not only with the 'bottom line' of making money but also technical aspects of farming that contribute to making the farm business profitable and efficient. Improving the performance of the farm business requires a good understanding of both the business and technical aspects of farming. 'Benchmarking' is a concept that is used to analyse and better understand the farm as a business. To do this benchmarking is conducted in a way similar to a doctor diagnosing the condition of a patient. Diagnosing performance means understanding business concepts such as profitability and efficiency, identifying the problems that prevent the farm from achieving its potential and formulating strategies and actions to improve its business performance.

How do you, as an extension worker, assist farmers in finding ways of making improvements to the farm business? How do you as an extension worker help farmers improve profitability and performance?

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Attention extension workers

The methods recommended in this guide require familiarity with basic farm management economics as covered in Farm Management Extension Guide 2. The guide is expected to be used by extension workers with university level training and at least an introductory training in farm management economics. In countries where extension workers do not have this background, the more likely user of the guide would be farm management specialists. The role of farm management specialists is broad and their responsibilities are covered in Farm Management Extension Guide 4.

While benchmarking is useful for all types of small-scale farmers, family farmers that produce mainly for household consumption as well as market-oriented farmers, its practical use in farm business analysis will be more appreciated among commercially minded farmers that wish to improve their profitability and competitiveness.

While the guide draws on known farm management methods and experiences, the recommendations on approaches and activities for benchmarking are new and mostly untested. This guide is therefore being made available to stimulate innovation and adaptation.

Benchmarking may at first seem somewhat complex, but when the procedure is carefully explained and given an operational structure to follow, the process becomes much easier. This guide sets out to do just that. How the guide has been structured and what the reader can expect to find is briefly described below.

Part 1: Introduction to benchmarking and overview. *This part begins with a discussion on benchmarking and how it is applied (informally, formally, internally, externally) followed by an introduction to the key concepts needed to analyse and measure farm and enterprise performance (profit, profitability, efficiency). A brief overview of a ten-step process to conduct a benchmarking exercise is also given. This part ends with a section on benchmarking and its application in extension work.*

Part 2: Step-by-step field guide. *This part has been structured to provide detailed guidance for extension workers on how to undertake a benchmarking exercise: A ten-step process is described. Readers are urged to study the sequence from beginning to end until the process is clearly understood. Benchmarking procedures and data collection are discussed including some things 'to do' and some things 'not to do' in the field.*

Each of the ten steps includes 'Tips' and 'Questions to initiate discussion' when conducting an exercise. This is to help and support you in the practical application of benchmarking.

Undoubtedly, during the course of reading, you will develop ideas of your own on how you plan to conduct your field exercises. These should be listed. Space has been provided for notes and observations. The material that has been covered here, together with your list of ideas, is intended to be used as a field guide. Remember, the best way to learn how to benchmark is by practice.

Contents

Part 1
Introduction to benchmarking

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Chapter 1

Benchmarking in farm business analysis

OVERVIEW OF THE MAIN CONCEPTS

Benchmarking
The process used to identify, learn from and adapt better practices from other farmers to help improve farm performance.

Benchmarking can lead to increased profit ...

Profit
The difference between money that comes in from the sales of a product and the money that goes out to produce it. Profit is used to measure the success of the farm business and is vital for its survival and growth.

... and profitability ...

Profitability
A measure of performance that shows how well the resources available to the farmer are used to generate income and profit.

... and to improved efficiency in the farm business

Efficiency
Efficiency is the careful use of the resources available to the farmer. Efficiency can be either technical (producing the highest possible output from a given set of inputs) or economic (the financial returns from resources used).

BENCHMARKING

There are two main parts in benchmarking ...

What is benchmarking?

The term 'benchmarking' is used to cover a number of practices found in farming that are designed to highlight the good and make it possible to avoid the harmful. Benchmarking ,in business practice, is used to signify a particular systematic approach in which a business evaluates its own operations and procedures through a detailed comparison with those of another business, in order to establish best practices and improve performance.

... collecting data from farms and comparing this data against a benchmark farm ...

When using benchmarking in farming, it involves gathering data about the best performing farms and comparing them with other farms. Benchmarking can show how higher levels of performance can be achieved. Many insights can be gained through a benchmarking exercise. It can uncover problems of production, management practices and other factors that affect productivity, cost of production and profitability. These insights and discoveries can be used to improve farm performance.

... to make meaningful comparisons, it is necessary to collect similar data

Benchmarking is a process of identifying, learning from and adapting good practices and processes to help improve performance ... but remember, benchmarking requires comparing like with like.

The process starts by identifying farms and farmers that are performing well and are successful at what they do. It requires a thorough understanding of their farming practices in order to identify strengths and weaknesses and steps needed to improve performance. The performance of these 'benchmark' farms are set as a standard for farmers to compare themselves against.

Informal benchmarking can help improve performance ...

Informal benchmarking

Farmers often do benchmarking informally. A farmer sees another farmer with a larger harvest or one who gets a better price for the same product at the same market. *Why is this so?* A farmer hears of another farmer who reduces costs by introducing a new technology. *Should she or he do the same?* By observing and talking to successful farmers, others can learn how to improve the performance of their farms. Informal benchmarking can result from something as straightforward as a walk around someone else's farm. Farm visits are considered an important part of benchmarking and will be discussed later.

Formal benchmarking

However, for best results farmers will need to learn how to benchmark through a more systematic approach. Formal benchmarking takes farmers through the following steps:

... however, to be efficient farmers need to approach the process in a more structured, formal manner

- examine their own farms and look for areas for improvement;
- identify a similar farm that is performing better;
- study that farm in detail and try to find out what it is that the farmer does better;
- compare the performance of the two farms and understand the reasons for differences;
- plan and introduce changes to their farms based on what they have learned.

Formal benchmarking provides a standard for comparison. It can be applied to:

- compare the performance of any farm with a more successful farm;
- compare the past performance of a farm;
- compare a farm plan with the actual outcome;
- compare production levels to check if the farm is technically efficient;
- compare production costs to check if the farm is economically efficient;
- examine the production and marketing processes to determine if they are sound;

- learn from the experience of other farmers and generate new ideas.

Benchmarking can be internal to the farm business or external by comparing one farm with another

Internal benchmarking

Internal benchmarking takes place when the performance of the farm business is compared with itself. This is an internal assessment of past results to determine ways to improve. Over time the farm business is analysed, performance is measured, weaknesses and opportunities are identified, and on this basis improvements can be made. Good farm records are of great help with this.

Results of internal benchmarking can often be quite quick. The challenge is to know what farmers can do to improve performance once these lessons have been learned. The solution for farmers, however, often lies beyond the farm boundaries. This leads to external benchmarking.

External benchmarking

External benchmarking involves comparing the performance of a farm business with the performance of other farms that have similar farm enterprises. The benchmark may be a competing farmer or simply a successful one who is ready to share his or her good farm management practices with other farmers in the vicinity. Either way, the benchmark farm serves as a demonstration of how things should be done. It can be studied, learned from and copied. (Depending on the farm enterprises and operations that are being examined, there could even be a number of benchmark farms selected for comparison.)

When should benchmarking be conducted?

Benchmarking can be conducted at all times and at all stages of the farm decision-making cycle, from diagnosis and planning to implementation.

Comparative analysis

In developed countries, benchmarking has taken the form of detailed studies of the performance of farms located in the same area. Farms are usually clustered around similarity of the farming system and technology base. Benchmarks are identified by averaging data collected on farm performance from surveys of large groups of farms. The data collected is usually averaged out and standardised data is used for comparison. Sets of data are often calculated for different sub-groups of farms. Benchmarks on farm and enterprise profitability are commonly calculated. High profit benchmarks can be derived by selecting the farms in a group that are most profitable. Similarly other farms can be categorised as "weak" and average" performing.

There are many developing countries that have also institutionalised the tradition of collecting farm management data for comparative analysis. Annual or six-monthly reports are often prepared on a regular basis. The performance measures derived from the data are used at local levels in farm advisory work and at national levels to inform agricultural policy. This form of benchmarking is complex and requires the use of spreadsheets to analyse detailed financial and physical data. Within the farm management discipline this has traditionally been called comparative analysis.

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