

# Management Accounting Crucial Next Step In Financial Analysis, Strategic Planning

Agriculture is on a rollercoaster ride with the most marketplace volatility in decades. Dairy producers are holding on for dear life and wondering where the tops are to rapidly rising input costs, not to mention where the new breakeven thresholds are in their businesses. Management accounting is the seatbelt producers need for security on modern-day agriculture's wild ride.

Dairy producers will want to buckle up for a Day 2 (March 12) specialty session at the PDPW Annual Business Conference, "Solving The Profit Puzzle," March 11-

12 at Alliant Energy Center in Madison. This two-hour session on management accounting will give producers the tools they need to determine what's driving their cost structure and the impacts of strategic decisions – past and future.

Presenter Dick Wittman, in a two-hour session, will guide dairy decision-makers to answers with which to solve their personal "profit puzzles." Attendees will walk away with a thorough understanding of management accounting – a foundation for linking "financial performance analysis" to "strategic thinking." They'll see how

management accounting differs from whole-farm business analysis and enterprising, and how it empowers "responsibility-centered" managers to make quality decisions.

Management accounting allows producers to assess performance in "manageable segments" (i.e. responsibility centers) of their business and enables decision-makers to link financial and operational analysis with strategic planning, explains Wittman, a private farm management consultant who also manages a large-scale dryland crop, range cattle and timber operation in northern Idaho

with family partners. He provides seminars and private consulting service to ag lenders, producers and other ag business professionals.

Wittman is past president of the Farm Financial Standards Council, a core group of farm management and financial experts striving to professionalize farm accounting and financial analysis processes. This Council developed national guidelines to help producers implement managerial accounting systems. Wittman is also on the faculty of The Executive Program for Agricultural

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# Accounting

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Producers (TEPAP) at Texas A&M University, a program that teaches advanced financial skills.

Wittman has an ag economics degree from the University of Idaho and a MBA from the University of Utah. He worked for the Farm Credit System, concluding his lending career with the Farm Credit Administration in Washington, D.C., where he supervised Farm Credit operations for several U.S. districts. He joined the expansive family farm in Idaho in 1980 and established his part-time consulting practice.

Wittman has authored a guidebook, "Building Effective Farm Management Systems,"

that's a toolkit for commercial-size family farm businesses to define their ultimate vision and put in place a professional management and transition process that'll lead them to their goals. Wittman likens his guide to an equipment operations and service manual. It'll help a producer build a system from scratch, solve a specific management challenge or do a major overhaul of his management process. (Learn more on his website at [www.wittmanconsulting.com](http://www.wittmanconsulting.com).)

In "Solving The Profit Puzzle" on their dairies, Wittman says producers should constantly be asking themselves some questions:

- What strategies are

keeping us successful?

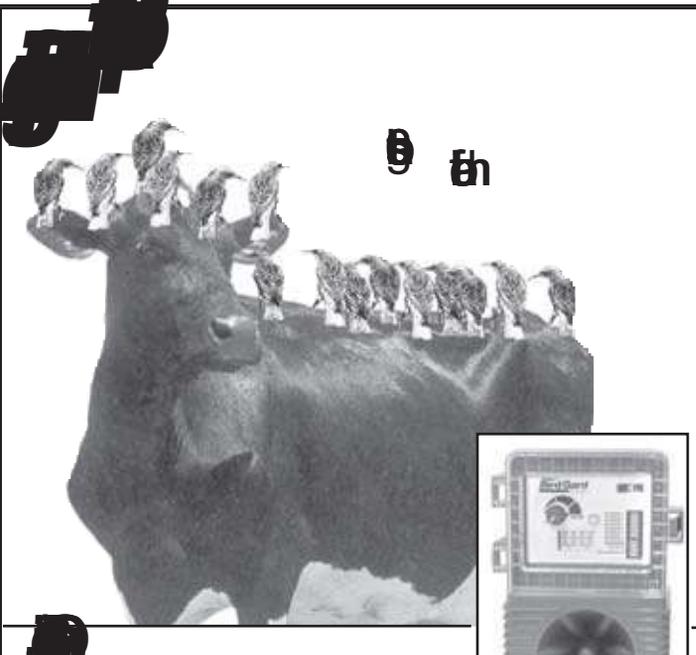
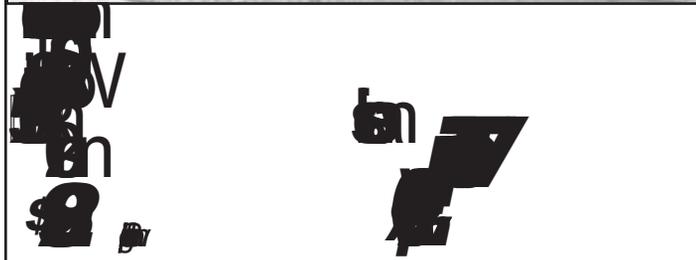
- What strategies should we change?
- How will strategic change impact performance?
- What information is needed to make good decisions and survive?
- Do we have capacity (in terms of management and resources) to implement change?

Management accounting links performance analysis to decision-making. Wittman contends "few farmers understand cost structures and the strategic decisions that differentiate successful farms from those struggling financially. Traditional enterprise analysis hasn't

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"My favorite part of the PDPW Annual Business Conference is getting to see other producers and just talking to dairy farmers that have the same interests that I do."

*-Terri Abing  
Majestic View Dairy,  
Lancaster, Wis.*



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## Analysis

CONTINUED FROM PAGE 21 provided answers growers need to determine what decisions are contributing to success or failure. Ratio analysis is not well understood and seldom connected to goal-setting and decision-making.”

Producers must move beyond thinking of themselves as “number-crunchers” or good “book-keepers” to “decision-makers,” he maintains. Management accounting also moves beyond whole-farm financial analysis, which is “fine for lenders” trying to determine if an operation is profitable or not. The missing puzzle piece producers need is: “Why?”

He promises a primer course on professional managerial accounting systems, relatively new in the farm management arena. During PDPW's Annual Business Conference in March, he'll also illustrate the often overlooked linkage between financial analysis and strategic decision-making.

There are six core concepts in management accounting:

- Requires cost-based accrual accounting
- Uses “responsibility centers (manageable segments) for accumulating and summarizing transactions
- Integrates production factors and financial measurements (i.e. “per hundredweight” and “per bushel”)
- Core transactional information is accumulated and then “supplemented” with economic analysis

- Follows GAAP (Generally Accepted Accounting Principles), commercial industry practice and has multi-commodity applicability

- Must accommodate multiple-period production cycles (crop, livestock, perennial).

Wittman says producers need to know what gauges to monitor – working capital, debt-asset ratios, ROE and ROA, accrual net income, unit cost of production and more. Management accounting gives them the ability to look at those gauges over time; they'll be able to see the direct result of decisions they made three years ago, for instance.

Producers hit the books at tax time and for external financial reporting to their lender, but managerial accounting is the next level, tying financial and physical units of the business together. It enables “responsibility segment managers” (crop production, the milking herd, the heifer enterprise, equipment support and others) to examine respective profit and cost centers for strategic management.

Management accounting takes a producer beyond an operating plan (i.e. what you do) to a strategic plan (i.e. how you do it). With this top-flight financial analysis producers will be able to find opportunities they maybe wouldn't have otherwise recognized.

According to Wittman,

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## Management

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there are five steps to strategic management. They are:

- Know your costs and margin in each management activity center
- Identify strategies and factors that influence each key performance area
- Simulate the impact of alternative strategic decisions
- Implement high-impact strategic decisions
- Measure the impact of decisions made.

People drive a dairy operation. Wittman tells *Dairy's Bottom Line* that management accounting allows owners to provide performance indicators to people in charge of specific parts of the business. You'll be able to chal-

lenge yourself and other key people on your farm – the management team – to excel at what you do best. If nothing else, he says his presentation will be a “wake-up call” to producers who don't have their business divided into “individual management responsibilities.”

PDPW conference attendees will learn from Wittman which gauges will help them measure performance over time and determine how strategic decisions have affected the “readings on those gauges.” They'll be able to see what strategies they can tweak for better performance. They'll be able to solve their profit puzzle.

By Jane Fyksen

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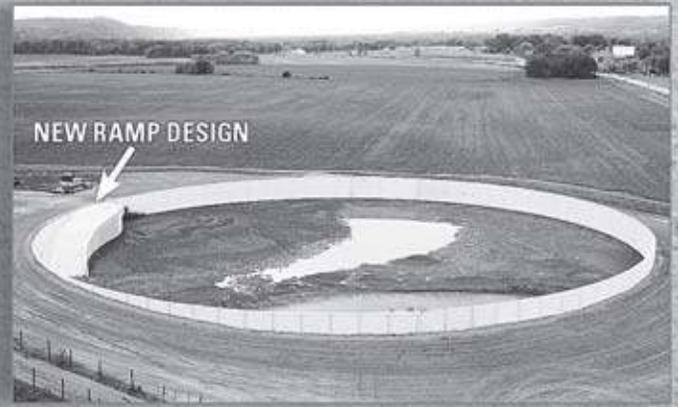


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