



Dick Wittman

MANAGEMENT ACCOUNTING

The multiple-member family farm

Multiple generations and multiple siblings and cousins can make today's farm virtually unbeatable, providing you manage the farm to tap into that strength. Here's how one of North America's farm management leaders gets it done at home

By Maggie Van Camp, CG Associate Editor

In 1980, with a degree in ag economics, an MBA and a dream job with a bank in Washington, Dick Wittman decided to start farming.

His priorities had shifted to family and he saw an opportunity to start a three-way corporation with his brother and cousin.

Today, he helps manage an 18,000-acre dryland farm with cattle and timber operations in northern Idaho. In addition, he acts as a business consultant for other farms, and he writes articles and conducts workshops, such as last winter when he spoke at the Canadian Farm Business Management Council's annual conference in Niagara Falls.

Wittman has compiled a guidebook outlining ways to deal with everything from labour to accounting, and from internal farm communications to how to deal with family heirlooms.

Wittman also practices what he preaches, as we got a chance to see when COUNTRY GUIDE caught up with him in his office this spring. "Farming is an extremely complex business," Wittman says while dealing simultaneously with a machinery issue, an investment error and a UPS delivery. "If you want to strive for excellence, you need to use the core strengths of multiple individuals."

Wittman's farm has grown. In fact, it has quadrupled in size and now has more stakeholders. That's a good thing, he says. Their multi-member farm corpo-

ration has allowed for diversification and better economies of scale.

A corporation also allows for capital transfers between generations, and a more dynamic way of bringing in new participants. With a corporation too, business continues seamlessly through all these changes.

Yes, there are the tax implications that you should consider, Wittman says. But then he quickly adds, those aren't the issues that topple family farms.

Wittman says a multi-member farm corporation can work better than a sole proprietorship because multiple individuals supply specialized skills, which saves time and allows for excellence. It's rare that one person can be good with machinery, animals, people and numbers. "He'd have to be better than God," says Wittman. "Most people will tell you they have a core strength."

Wittman suggests that when you're first planning how your business will work, try to forget about people. First ask yourself: What strengths does our farm need?

Outsource if you need it, he advises. "Hire a mechanic, hire a chief financial officer, if there's nobody on your team that has those strengths and your business needs those skills."

In the last couple decades, lumping multiple enterprises or diversifying into other areas under one corporation has helped many large family farms survive when returns drop in one commod-

ity. "Having the ability to diversify has saved our bacon over the years," says Wittman. "Even in the worst of times, we've still made money."

During the last year when cattle, timber and commodities have all dropped in price, being efficient with economies of scale, having a strong net worth position and spouses with off-farm incomes have all helped.

The disadvantage to multi-member corporations is that you need to always look for consensus and be sensitive to interpersonal relationships. "It calls for a much higher level of discipline," says Wittman. "You have to commit to teamwork."

Even so, if the corporation is set up properly, with written job descriptions, vision and core values, you can still act as quickly. For example, if a piece of land comes up for sale, a multi-member farm might see one person work out the financials while another could look into the logistics for labour and machinery and a third could walk the property to check soils and buildings.

The whole farm has a directive to improve production and net returns and each division manager is responsible to do that. Their informal "board of directors" (that would be the company stakeholders) can meet quickly and vote based on all the information from each person.

"Every farm with three or more people has a board of directors," says Wittman. "They just don't know it." When farmers

are talking about things like transferring the farm, or if they should try to grow 10 per cent — they're making policy decisions like a board. They're looking at the business as a whole, stating their opinion and making a decision.

Before you even start talking about things like incorporating or using management accounting, Wittman says your farm needs consensus on how you want to operate generally, and what your overall goals are for the farm.

This, he says, is even more important in multiple member farms.

Set goals

Wittman says the most important thing a farm can do is to write down its core value, vision and mission statements. "Only once everyone is on the bus, can you drive," says Wittman. In other words, it simply doesn't work if one player has a different idea of the routes and destination.

A mission statement defines the broad purpose of the farm and states the key products and services, the primary customer or market, and the business objective. A vision states what your farm will look like when you complete your mission. Core value statements are where you inject quality-of-life considerations, plus other values including service to community and stewardship.

You must have a common vision and ideals. "If you don't get that apple out of the box quickly, it will ruin the whole thing," Wittman says. "It doesn't mean the apple is rotten. It just has a different philosophy and it just can't work until everyone shares the same values."

It doesn't matter if it's a joint venture, corporation or some other business model, set your goals, divide responsibilities and figure out how you want to run your business. Then, let the legal folks set up the format which will let you operate in that way.

Management accounting

On their farm, Wittman is in charge of finances and empowering a team of managers — a cowboy, a mechanic, an agronomist and a timber-lor manger — to make quality decisions. They track each product's cost of production including indirect and direct expenses. The next step is to include things like sales, administrative costs, and financing expenses. Then Wittman calculates their operating margins for each production unit.

Wittman says that once you start and

have processes in place, it's not a lot of extra work. "This isn't rocket science. The direct input costs are easy... things like fertilizer, seed." Many industry benchmark calculators include only these direct expenses. The numbers become more meaningful when you include the other costs.

With overhead expenses, sometimes you have to make a reasonable guess. To allocate your time, you probably don't want to punch a time clock so take a best guess. Set a value for shared depreciable expenses based on things like tractor hours, but keep it simple, especially at first.

Most importantly, make sure you deal with these expenses consistently between years. Comparing cost of production and operating margins between years is more important than getting your indirect costs perfect to the penny, says Wittman.

With each division's costs of production in hand and broken down in dollars per unit (i.e. per bushel, tonne or litre), you can easily compare year-over-year trends, and you can also quickly identify rising costs.

Then as a group, you can take the divisional operating margins and combine them with your whole farm information to understand your debt position and return

says you need to pick someone who's persuasive, logical, credible and knowledgeable about your businesses.

They won't vote — that's up to the farm's board of directors, not its advisors — but they will give you guidance and advice.

Setting salaries can be awkward and may be the perfect example when the owners (meeting as a board) jointly decide that an advisory team would come in handy.

"It's easy to look the other way on topics like this but as soon as you start down that slope, you're dead," says Wittman. "If you run your farm business like a family, you're going to sink it."

From his consulting, Wittman is convinced that it has to be clear that not everyone is equal in a multi-member operation. Not everyone contributes the same amount of time, or equally valuable skills or experience, so not everyone gets paid equal amounts.

On his own farm, all the members of the farm sat down as a board and agreed that in businesses generally the CEO gets paid more, the management gets paid a reasonable amount above the non-taxable benefits and the labourer gets paid less.

"A crude measure of the right things is better than a precise measure of the wrong things," Wittman says. "Manage the big pieces."

on investments, allowing you to make better strategic decisions. For example, with a clear operating margin for each division, you can tell if you should grow your custom business or sell some cows based on your whole-farm financial position.

Wittman feels that advisory boards are almost essential for multi-member businesses, especially when setting high-level strategies and discussing decisions that can get emotional, like estate planning or setting a business approach to salaries.

An advisory board will also show you how to implement current business tools to make your farm more effective and sustainable.

Decisions, decisions

On Wittman's farm, their external advisory team includes their accountant, attorney, insurance broker and investment broker. Wittman sits on several advisory boards for his farm clients and

Then, all the shareholders privately wrote on a paper what they thought the CEO position was worth, how much premium the management staff was worth, and what a tractor driver was worth. Then they wrote what each thought the two younger members should be making. Amazingly, everyone was within \$1,000.

Once people understand that all family businesses struggle with issues like these, and that tools and processes exist to help deal with them, then they can proceed. Every business model has problems. All you need is a vision, the tools and the confidence to fix those problems to make your farm business model work for you. However, it's never always easy. Even someone with an MBA can find it challenging at times. Having a process to follow when things get tough makes it much easier.

Says Wittman: "Hiring an advisory team is one of the most effective tools I've ever seen." **CG**