Financial consulting: Sharing your clients' burdens

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Abstract

This presentation explores how providing financial consultation services to dairy clients in a practice situation can be a benefit to both the dairy client as well as to the veterinarian and veterinary practice. In practice, we provide value to our clients when we focus on the things that are a burden to them. Like other areas of focus in production medicine, our clients have many burdens in the financial management areas. The spectrum of financial management services desired by our clients may include partial budgeting, monitoring cost of production, expansion planning, overall strategic planning, feasibility studies, assistance with lenders, succession planning and transition of the business to outside interests. For those veterinarians who choose to do this type of work, and obtain the necessary training to do it well, it can be a rewarding part of their professional career that expands and deepens their relationship with their clients. The presenter shares his journey becoming involved in financial consultation with his clients and offers insight as to opportunities and pitfalls learned along the way.

Key words: financial consulting, cost of production, succession planning

Introduction

The theme of this conference is "Science with Practice". The idea is to take science, facts and knowledge and figure out how to use these in our everyday lives as veterinarians serving our clients. The speaker that preceded me, Diane Shoemaker, discussed dairy farm profitability and evaluation tools. I view her presentation as the science and knowledge part of this theme. I will build some on the science and knowledge part that she presented, but mainly I will focus on the practice part of the theme. My job is to explore the implementation of financial knowledge into practice to better serve your clients, hopefully while strengthening your practice and challenging and giving you professional satisfaction in your career.

Sharing our clients' burdens

The "sharing your clients' burdens" part of my title goes back to a swine production medicine class that I took at the University of Minnesota College of Veterinary Medicine taught by the late, great Dr. Al Leman. At the time, the swine veterinary industry had been changing over from an individual animal perspective to herd medicine to population medicine and even into systems management of the whole supply chain. Of course, much the same has happened within the dairy industry since that time. Dr. Leman stressed the importance of understanding the burdens that our clients had to deal with in a changing industry. If we wanted to be relevant to them and vital to their operations, we needed to become well versed in helping them with these burdens, even if they weren't in our traditional areas of knowledge and expertise. It was incumbent upon us to attain the necessary knowledge and skills to become relevant and valuable to them as they faced these challenges on their farms. Growing up on a swine and beef cattle farm and working with Dr. Leman on our farm while in veterinary school, this concept has had a large influence on my career and how I serve my clients.

As production medicine and population medicine has evolved in the dairy industry, this same concept has advanced greatly over my career. Many of the areas we work in today including nutritional consultation, building design and cow comfort, milking system evaluations, employee management and many other areas do not require a veterinary degree to work in, but our knowledge, skills, problem solving abilities and close relationships with our clients make us naturals to perform this work. These are all areas that have and continue to be a burden for our clients. Although the veterinary curriculum provides some training in these areas, additional learning and experience is necessary to perform in these areas at a high level. Similarly, financial management consulting requires a similar mindset.

I recognized early in my veterinary career that many of my clients felt significant burdens in financial areas. I saw dairymen who were successful when evaluated from a production parameter perspective, be it rolling herd average, somatic cell count or modern, well-kept farms, but were struggling financially. I saw neighbors who were almost the opposite, but yet appeared to be financially successful. I saw fathers and sons trying to figure out how a farm succession plan was going to work for them, but they didn't have the tools to know how to do it. I saw local farm prices rising and young people getting disillusioned with their options to ever own a farm. I saw a disconnect between production parameters and financial success. I saw dairy families, veterinarians, nutritionists and others focused on production parameters while lenders and accountants were focused on financial parameters and the two didn't always go hand in hand. In short, I saw clients burdened in financial areas, but they didn't always know how to deal with their concerns. It was from this base that I started to become involved in trying to help my clients in the areas of financial management.

Financial management consulting spectrum

On a daily basis, dairy veterinarians are already involved at some level offering financial advice to their clients. From making economic decisions on treatments, culling and intervention programs to performing marginal analysis using partial budgets to estimate the effect on income from some intervention or product. This is all part of everyday practice as well as advanced production medicine programs, as we help our clients deal with their burdens. I will not focus on these areas today, as they have been developed over the decades to serve our clients well. These types of interventions rely at their root on the concept of partial budgeting and marginal analysis, which makes estimates on increases and decreases in projected costs and revenue to arrive at an estimate of increased income from the studied intervention or product.

Today I will mainly discuss other opportunities to serve our clients, mainly at the whole farm financial level. These areas of involvement can include cost of production analysis, enterprise accounting, farm budgeting, farm business strategic planning, expansion planning, feasibility studies, succession planning and business exit strategies. I have found there is a need for all of these types of consultations among my clients and other business operations in my area. The area in which I practice is made up of primarily small to moderate size dairy operations, many of them Amish- or Mennonite-owned, with extremely high land values, but relatively small acreages, and many young people wanting to continue in the tradition of dairy farming. I am part of a 9-doctor, primarily dairy practice, offering the opportunity for our other doctors to promote the services I provide to their primary clients. The advantages of offering these services within a local practice situation include local knowledge, intimate understanding of the farm, long-term relationships with family members and continuing presence on the farm necessary for follow up services.

My point for describing my situation is that the services I provide have been developed around the opportunities and needs of our area and our clients. Your opportunities and needs of your clients may be different. If you are an industry veterinarian, extension veterinarian or university veterinarian you will probably not work as in depth with individual farms over a long period of time, but may focus more on developing tools for farms or consultants to use. Your interaction with individual farms may be more on the level of supporting products or services by using tools such as marginal analysis and partial budgeting. You may also focus more on the characteristics of the industry as a whole than on the intricacies of each individual farm. If you are a veterinarian working with a few large operations versus many small farms, or if you are a veterinarian associated with one ownership group or even own dairy operation, obviously the programs you offer will vary from what I have developed for the world I work in. No matter what your situation is, understanding the financial burdens of your customers and gaining training, skills and knowledge to help solve their problems can be a benefit to you and your clients. There certainly are some differences between large and small dairy operations, but the financial basis for them is very similar, just a matter of scale. They also have the same needs for financial consulting, strategic planning, long-term succession planning and risk management plans.

Getting started with financial consulting

For those who want to get involved with financial consulting with their clients, some training or knowledge level in several different areas is advisable. An understanding of basic accounting principles, including understanding of financial statements such as balance sheets and profit and loss statements, is important. Information and data analysis at some level is also important. Having basic Excel skills along with a working knowledge of QuickBooks or similar accounting programs is useful. Additionally, understanding basic lending principals along with the ability to create and understand amortization tables and forward-looking budgets is necessary as you move along the continuum of financial consulting services. These technical skills can be obtained through various means in today's world. I chose to obtain formalized business training by obtaining my MBA degree, which I completed in 2001 from a local college. That was the correct step for me, but you may choose other options.

Beyond accounting, spreadsheet and financial abilities, additional skill areas to focus on include facilitation skills, project management, change management and even some level of familiarity of counseling and conflict resolution. Especially if you get involved in succession planning and business exit strategies, it is important to be aware that emotions can run high within some family situations. I find it helpful to have some skills in these areas to keep the consultations moving forward in productive ways. A final consideration to be aware of when working in these areas is the importance of maintaining confidentiality in all matters. It is important that everyone involved understands that you will maintain absolute confidentiality, if you expect them to be open and honest with you, and everyone else involved.

It is not necessary to have all the above skill set in place to get started working in this type of work. Many of these skills can be developed over time as the consultant gets more deeply involved. In my own career, opportunities started for me in the areas of cost-of-production analysis and planning, small expansion projects and scenario analysis projects related to choosing which options of several made the most sense financially for a client to pursue. Over the past decade or so, I have had many more opportunities to become deeply involved with farm succession planning, larger expansions, farm purchases and working with young dairy farming families to develop long term entry, growth and ownership plans. Experience I have gained by being involved with the lending industry as a board member of a community bank, has further refined my skills.

The first step to becoming involved is to show your current or prospective financial consulting clients that you care and you have some skills and interests to help them. Ask open ended questions about concerns (burdens), limitations, future problems and their long-term goals in life. Once you start having conversations in these areas, you will uncover many opportunities to become involved. Discussing relevant topics and sharing your interest and expertise at producer meetings is another way to promote interest in the areas in which you wish to become involved. Several years ago, I developed a multi-day meeting series for an interested group of farmers. This series also included an individual on-farm consultation to put the topics discussed into action on their operation. I put it together as a packaged, for-fee service, with grant and sponsorship funding to help make it more affordable for the participants. One year I focused on training young dairy farming families on the principles of running a successful business, and the next year I involved multiple generations in a series dealing with succession planning topics. I had 12-20 farms involved each year. These programs really jumpstarted this type of consulting work for me. I included guest speakers, but made sure that I also presented some material each meeting to show that I had interest and expertise in the areas covered. Other ways to promote services include newsletter or social media topics and cross-selling by other members of the veterinary practice.

Methods and processes used for financial consultation

As discussed earlier in this paper, marginal analysis, also called partial budgeting, is widely used in production medicine programs to evaluate the expected change of some sort of intervention. This method can be used to evaluate management changes, changing or adding feed ingredients, evaluating disease control programs or any number of other situations. The basic assumption behind this type of analysis is that all the non-affected financial factors present in the system will stay the same as they currently are when the changes that are being evaluated take place. That allows us to focus on the individual costs and revenues that we expect to be altered through whatever intervention we are evaluated. Marginal analysis is a very effective method to help make many business decisions on farms. Even while doing whole farm financial consulting, marginal analysis is still valuable to use in many instances.

Beyond marginal analysis, I use a similar overall process for most of the other whole farm type of financial consulting situations that I have been involved with. The information gathering process includes interviews or questionnaires of all stakeholders, conversion of past financial performance into a cost of production analysis based on a $/CWT "currency", performing a SWOT Analysis and facilitated discussions to give focus to the project. These stages are followed by financial analysis, feasibility studies, budgets and potential timelines, that can be turned into business plans, succession plans or at least decision aids for the families involved. Either during the process or after decisions are made, legal and tax planning advisors should be consulted.

The first step in this process is to get input from the major stakeholders involved with the situation. I have found that farm specific questionnaires are very useful. I focus on specific questions they want answered, short-term and long-term goals, both personally for each family member as well as for the overall operation, possible solutions, roadblocks they may see, potential conflicts or differing visions within the family and their individual version of a SWOT analysis. I like to collect these responses ahead of the first group family meeting to get a better idea of the terrain ahead of us and focus the discussions. With succession planning consults, it is usually advisable to meet separately with each family involved at some point along the process to hear what they really think! Always involve spouses in this process. Good facilitation skills are also important in group meetings to draw out the ideas of more timid family members. From these questionnaires and discussions, a plan is worked out to address the issues identified, feasibilities studies needed, research and budgeting that needs to be done and identifying the scope and goals for the project as a whole. By going through the questionnaire process ahead of time, family members have already thought about the issues, goals, dreams and process before the first meeting, leading to a much more productive process from the start. Similarly, it gives me a much better understanding of what is ahead of me on any given project.

The second step, which is sometimes carried out concurrently with the first, is obtaining necessary historical financial information along with potential estimates on changes being contemplated. I like to collect 3 to 5 years of complete financial performance information for the business along with a current balance sheet for the business. Once again, I like to collect this information before the first group meeting so the discussions can be based in actual financial data, not just impressions. This data should then be converted into a cost of production analysis converting all income and expense categories into $/CWT of milk sold. This is the "currency" used by dairy farms of all sizes. Once converted to $/CWT, financial performance can be analyzed better, compared to benchmarks, trends become apparent and projections for various expansions or changes can be performed. Also, by evaluating decisions based on $/CWT, total farm milk sold is important for every income and expense category on the farm. Traditional production medicine efforts that improve milk production per cow as well as focusing on capacity utilization or growth show how these concepts improve the financial situation on the farm. This type of analysis should reinforce the positive things you are already doing for the farm and help point out possibilities for improvement in the future.

To accomplish this analysis, I prefer to adapt Excel spreadsheets to specific farm situations and income and expense account categories. I create side-by-side actual $ and $/CWT columns for each year as well as average columns for the overall period analyzed. I breakout subaccounts for various farm income categories they may be involved in. Costs or expenses are also broken into categories such as labor/owner draws, combined purchased feed/cropping costs, general farm/dairy expenses and loan payments. This allows me to consider and compare farms of different scale, different ratios of home grown versus purchased feeds, family versus hired labor situations and consider actual debt payments versus total debt/cow values. Of course, each individual account category can be observed along with trends to help make decisions, identify inefficient and cost containment categories and the effects of economies of scale, as changes occur.

When considering my major categories of expenses and cash obligations, a few rules of thumb emerge. Generally, there is about $2.00 to $3.00/CWT available for hired labor plus owner draws, if the farm is supporting the owner's family. Total purchased feed plus all cropping cash costs have generally been in the $9.00 to $11.00/CWT range over the last few years. Current higher feed costs may be driving this number higher, depending on the farm's emphasis on crop production. The general farm and dairy expenses that I break out into a sub-category are usually in the $3.00 to $3.50/CWT range. Obviously, debt payments can vary from zero to much higher numbers depending on the stage of the business, recent expansions or purchases of land and succession planning activities. That being said, in my experience, it is difficult to sustain anything higher than about $3.50/CWT for actual debt payments in the cash flow of the dairy farms that I work with. This rule of thumb is based on actual payments, not based on interest plus depreciation values, because my clients and the lenders behind these operations need to know the cash flow of the operation can sustain the business and its obligations. It is beyond the scope of this presentation to get into all the details of accounting, cash versus accrual, investment versus cash flow, etc. A good understanding of all these principals is important to perform in this area at a high level. I focus on these rules of thumb because they are useful when helping clients to answer the questions that they want help answering. If the questions are different, the tools used to answer those questions may also be different. It is important to remember these are rules of thumb, not laws of finance, so every situation must be analyzed with its own unique circumstances.

The third part of the information gathering process is to perform a SWOT Analysis. With input from all stakeholders, a SWOT Analysis is performed by asking what the **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats of the farm are. This process provides an analysis of the current state of affairs of the business. It provides areas of focus, either to strengthen things you are doing well, improve or get out of deficient areas and identify areas that may offer opportunities to improve the business in the future, while also acknowledging the things that may happen in the future that might complicate things. With robust discussions in these areas, most farms will identify things they are doing well and not so well. They will also help identify specific opportunities the farm may have to improve their situation, that I would not have been aware of, thus allowing me to explore areas previously unknown to me about a particular farm. It also serves to generate discussions and align family members in some common areas they can agree to work on.

Once you are at this point in the process, you have much of the information you need to complete the analysis part of the project. You can perform feasibility calculations, start to outline step-wise succession planning timelines and calculations, explore previously unidentified opportunities for the farm to pursue or continue to work on the family dynamics/responsibility issues that have been uncovered. Taking a step back and thinking about this process versus solving other production medicine issues, there are many similarities. Before jumping to conclusions, we usually gather as much data as possible through on-farm records and other measurements we make, we talk to the owners or managers about the problem, possible solutions and other concerns they may have and consider how our solutions might fit into the whole routine with employees, facilities and maybe even investment limitations. This process is essentially the same. Gather as much information as you can so you can come up with better solutions that will work for the particular farm you are working for in a way that has a good chance of implementation and success at solving their problems.

Tips for avoiding pitfalls in projections

It is important to recognize the risks associated with making projections through budgets, performing feasibility studies and developing plans for farm successions. Risks include, but are not limited to, milk price risk, interest rate risk, feed pricing risks, weather and crop failure risks, cattle performance risks, health and abilities of owner risk and the list goes on and on. I formally recognize, outline and create a disclaimer that anyone utilizing my reports for any purpose recognize the inherent risks involved and use my reports at their own risk. I do carry business consulting insurance, but have never been forced to use it.

Other pitfalls with making projections for expansions and successions include things like incorrectly estimating the management team's ability, incorrectly estimating facility limitations, underestimating cull rates in startup or expansions, failure to recognize needed growth in all the infrastructure needs of an expansion, assuming something will be bought out of cash flow "when we get a chance" while creating the debt structure plan, not considering contingency plans when timing is bad and things don't work out just right, and finally changing any assumptions in your plan to "make it work". I have seen farms struggle when these kinds of mistakes have been made. I find that experience as the farm's veterinarian can be valuable in preventing these types of problems.

Specifically, from the farm succession standpoint, potential pitfalls can be neglecting to spend enough time early on with the compatibility of and conflicts between family members in regards to their goals, expectations of both generations, outlining the timing of management responsibilities, not just ownership changes and failure to consider the interests of non-farming siblings. As I stated earlier, it is also important to involve all spouses in the process. Tax and estate planning is important, but shouldn't handcuff the ability to the operating owners to make key business decisions over the years. Generally, succession plans require 7 to 15 years, broken down into step-wise progression, to accomplish successfully. However, even after that period, there may still be debt involved for many more years.

Conclusion

Financial consulting for dairy farm clients can be a valuable addition to other services that a veterinarian or a veterinary practice already offers. It can be a value-added service that builds on and strengthens an existing relationship. In a group practice situation, it can provide another service that can differentiate and help grow the practice. As I have progressed through my career in dairy practice over the last 34 years, the work that I have done working with dairy farm families in the ways I have described in this paper have been the most meaningful and rewarding part of my career. Identifying and sharing their burdens and serving their needs have been very meaningful to me. It has provided a nice balance with the physical nature of traditional dairy practice work and has proven to be challenging and rewarding in many ways. I encourage you to develop your interests and skills and build a financial consulting component to your practice that fits the needs of your clientele.