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# Managing Lithuanian Agricultural Companies for Profit

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*Seeking Solutions to International Economic Problems*



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**MANAGING LITHUANIAN AGRICULTURAL COMPANIES FOR PROFIT**  
**Training Manual**  
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## INTRODUCTION

In the past, farm directors' only management objective was to meet (or exceed) centrally determined production goals, since decisions regarding investments and financial management were made by the state. Often, if cash shortages occurred the state would provide additional cash or forgive outstanding loans.

But in a market economy:

- Markets determine prices and what is produced
- Companies must be managed for profit, not production
- Risks must be taken
- Managers are responsible for the financial consequences of all their decisions, and the financial health and survival of their enterprises
- Operating losses mean assets must be sold, workers must be laid off, or more money must be borrowed, and potentially the business may fail

At a minimum a company must operate by taking in enough money to pay all of its expenses. That is, it must break even.

### MANAGING FOR PROFIT MEANS

- Establishing goals to guide decision making
- Using all of your business resources to meet those goals
- Anticipating the future
- Thinking and acting strategically and pro-actively by
  - identifying and analyzing all alternative uses of the farm's resources, and
  - implementing actions contributing the most to realizing the farm's goals

A successful business manager constantly practices and learns, just like a successful concert violinist. Lithuanian Agricultural Companies (LAC's) that are led by strong and creative directors, who continually practice and learn, will become strong and profitable. The Geonomics Institute program of workshops and forums will assist you to ascend this exciting, highly challenging, but rewarding path to prosperity.

The Geonomics program teaches you the tools and concepts that will enable you to be better managers in a market economy. You will participate in exercises and discussions that let you practice real tools and concrete skills. This program has been derived from successful Western companies and modified to fit Lithuanian law and the real situations you face.

By the end of the program, you will have learned and begun using:

- Strategic and Tactical Planning to evaluate and choose new business opportunities, and manage your risks
- Financial and Operations Management for raising your profit and cash flow
- Financial Information for monitoring your business progress and departmental performance
- Marketing to increase your power over the market
- Incentive Systems for increasing the quantity and quality of your products and services
- Forecasting to think about, anticipate, and take advantage of the future

We wish to thank the directors and specialists of the Birzai Region Department of Agriculture, our partner LACs in the Birzai Region, the Birzai Milk Plant for their cooperation, guidance,

and willingness to share their experiences, information, and frustrations with us over the last two years. We have learned much from you, and hope you have and will continue benefiting by our work in Lithuania.

This manual, and the program that accompanies it, should be thought of as a living document. Together we will use it, and together we will revise and adapt it over the next two years, to best suit the needs of Lithuania's Agricultural Companies. We very much want to hear your reactions to the manual and the program, and more than anything else, your ideas regarding changes or additions that will make it a more useful and more valuable resource for you.

Finally, after working in Lithuania and with many of you over the last two years, we are absolutely convinced that the Lithuanian Agricultural Company is a business structure having great potential to prosper in Lithuania's market economy. Our goal for this program, and over the next to years is to work with you to do everything possible to translate that potential into reality.

## SECTION I. MANAGING THE LAC

### INTRODUCTION

The manager's job can be best described by what he or she does: leads, makes decisions, solves problems, and delegates responsibility and authority.

He or she also:

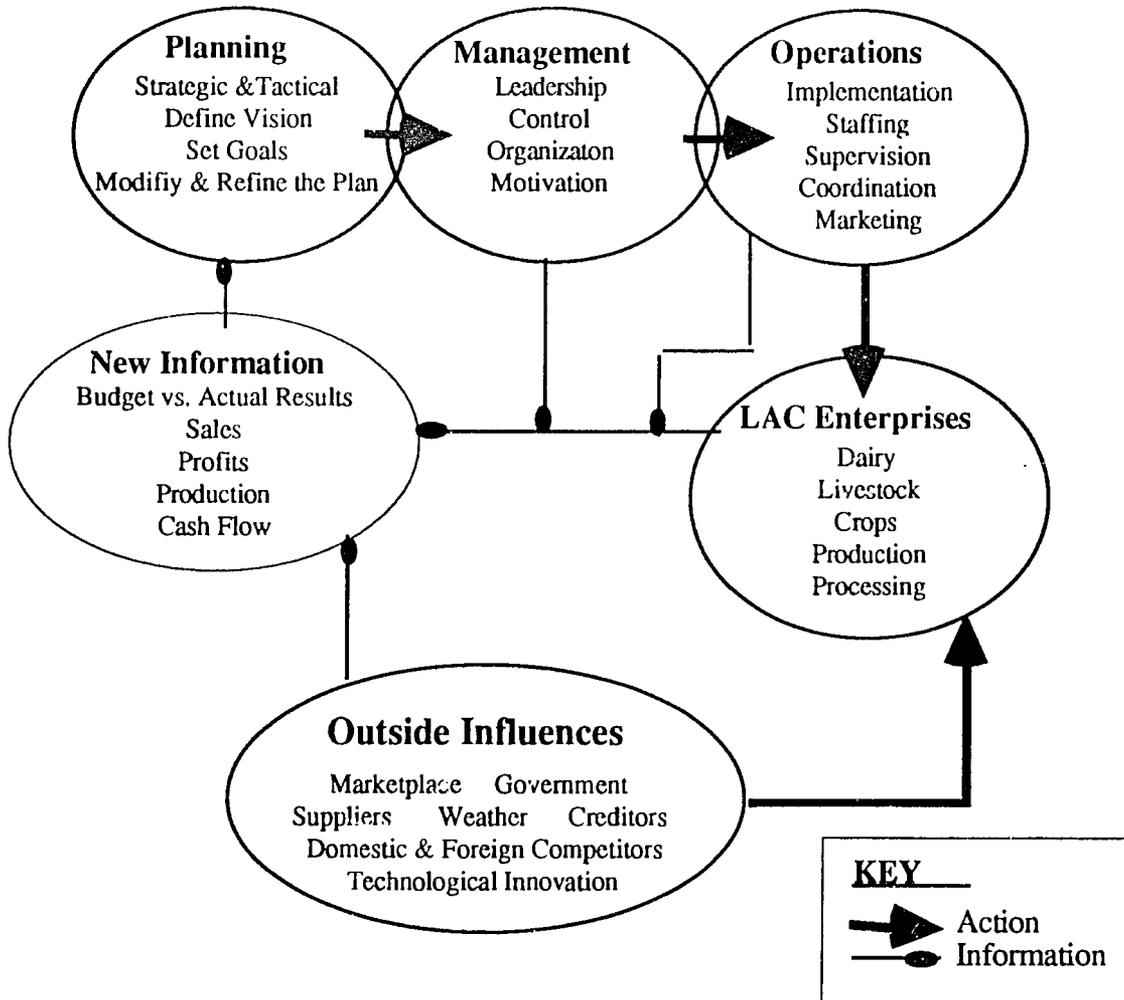
- Has the authority, power, and responsibility to act
- Speaks for the people in the enterprise and keeps outsiders informed about its work and its needs
- Is responsible for the staff's work and for motivating and encouraging them to achieve the organization's production, quality, and financial goals
- Is the company's or the enterprise's entrepreneur, allocator of resources, and negotiator

Section I provides the tools you will need to become an even more successful manager than you are today.

**MODULE I.1 PRINCIPALS OF BUSINESS MANAGEMENT**

**A. Management is a Self-monitoring Process**

Figure I.1: Management is a Self-monitoring Process



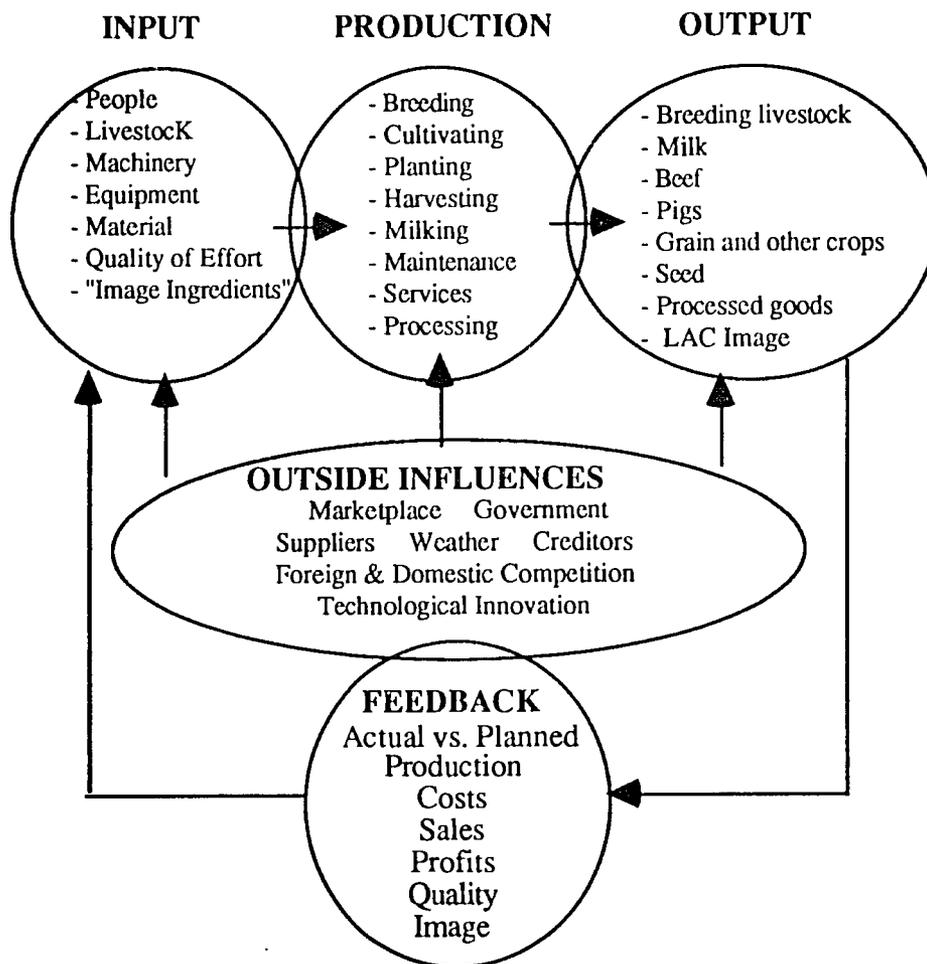
- **Planning** — Developing strategic (long range) and operational (annual) plans at the overall LAC and enterprise levels
- **Management** — Exercising leadership, control, motivation, and organization
- **Operations** — Implementing strategic and operational plans, staffing, supervising, coordinating, and marketing

**B. Management from the Company Perspective**

- Every business uses inputs and processes them into more valuable outputs
- The business is made up of many never-ending cycles
- The *Closed Loop Approach* makes sure that the process is evaluated and improved each time the cycle is repeated

- The organization pays attention and responds to changes imposed by the external environment. The better it can be at operating this closed loop, the more successful it will be creating value for its owners.

Figure I.2: The Operating Loop



**MODULE I.2 ACHIEVING EFFECTIVE LEADERSHIP****A. Qualities of an Effective Leader**

- Leads by example

**Example:**

Leading by example means that the leader asks nothing of his workers that he will not do in their place.

It is June and the first hay harvest is nearing an end. The forage harvesting teams have been working long days. Many have worked 21 days without a day off.

Saulius, one of the LAC's most reliable tractor drivers, calls the director's home early on Saturday morning. His wife is in labor with their first child, and he asks the director for advice about what to do.

The director, who used to drive tractors, responds, "Saulius, you should be with your wife. I will drive your tractor today."

- Strives to represent the organization's goals, and to set an example for others to follow, in all his work

**Example:**

The LAC's management board recommends that over half of the year's profits be paid to the shareholders as a dividend.

However, one of the company's primary strategic goals is to achieve sufficient growth in order to provide good jobs for all worker-members who wish them. Paying out over half of current profits now might please the shareholders in the short term, but it would violate the long-term strategic goal.

If the director is an effective leader, he will argue against the management board's recommendation using examples of the company growth and new jobs that would be produced if the profits were invested in new technology or a new business.

- Leads the development the corporate vision, and builds commitment to it

**Example:**

At an annual meeting of the LAC, people were feeling very good about the fact that the farm had been profitable now for two years running. The subject of what to do with profits came up for discussion. Fielding the question was now different for the director. At earlier annual meetings it had been very easy to talk about using the profits to invest in the LAC's needs for new equipment and buildings. Now the discussion was actually more difficult because the director sensed that his hard working farm could be profitable for years to come. The director's discussion now had to focus on developing a corporate vision that used profits in ways that would build the LAC's future.

The director had long felt that success at his LAC was due in large part to team work and a sense of family. He knew just how to reply. He talked to his workers like the family that they were; asking them to help him decide just how they could use their profits to keep the family well. They discussed issues that transcended generations—like how to educate their children and think of creative and challenging opportunities for their futures at the LAC.

- His actions advance the goals of the company vision

**Example:**

Part of an LAC's vision statement is to "attend to the needs of pensioners who are former workers at the LAC." In this example, the LAC has been profitable for a number of years and many pensioners who once were able to maintain their individual plots no longer can do so. The LAC director must now act on behalf of these pensioners while adhering to the LAC vision statement.

The director prepares a list of alternatives that are in keeping with his LAC's vision:

- Utilize LAC equipment and labor to maintain production from the pensioners' plots.
- Have the LAC purchase or lease the pensioners' plots, giving the pensioners in question income to replace their lost production.

Clearly there are other choices that could be put forward at this time, but the LAC director only looks at those choices that fit within the LAC vision.

- Establishes a philosophy of meeting high quality standards throughout the entire organization

**Example:**

The herd manager and her staff cannot consistently produce high quantities of first sort milk alone, no matter how well they manage their cows and their milking activities.

Each function (enterprise) in the LAC must understand that its product is only as good as the other functions it depends on allow it to be .

The quality and quantity of the herd manager's milk will only be as high as those feeding her cows, those harvesting forage and other crops, and those plowing and planting crops allow her to be. It is all connected.

- Maintains a strategic focus

**Example:**

A worker came to the director looking for a raise in pay. As the director listened he began thinking “here we go again.” First one worker, then more, then everyone. Then the raise. And then for but a few short months calm will reign, and the cycle will start again.

Workers are owners, thought the director, and as owners I need to get them to shift their thinking to thinking like owners. If the workers don't get a raise then that money that would have been paid to them as wages should be available as profits. Why not get the workers to focus on the reward of ownership—profit. It will accomplish more than any raise will. By getting workers to think long-term the reward then lies in the future. As a result they will need to work successfully every day to achieve the reward. Further, they'll have to work as a team since profits will result only from a collective effort. And it will improve LAC cash flow—money that would have started to be paid at the time a raise is agreed upon will now only be obligated if the LAC makes a profit.

- Is a good listener, which means much more than attending meetings and having an open door

**Example:**

Listening means leaving the administration building and finding out what is actually happening in the fields and barns by talking with department heads and foremen.

Nearly everyone on the LAC is concerned about the potential that people will be losing their jobs. Layoffs and potential bankruptcy are also seriously troubling the director. He knows that labor costs must be lowered by 10 percent.

By sharing his worries, the director is actually asking his people for their ideas. After all, the workers were owners too.

Perhaps a field assistant might suggest that if hours worked and pay was cut by 10 percent for everyone, total labor costs would fall by 10 percent as well. Besides, the field assistant might argue, if he had more time to work on his private plot, he could easily replace the income he would be losing, and no one would be laid off. Then, when the market recovered, the company could respond the higher demand and prices for its products by having people again work full time at full pay.

In fact, this really happened this year in the Birzai Region! It truly pays to walk and listen to the workers.

- Recognizes that organizations go through good times and bad times

**Example:**

The fact that organizations have both good times and bad means that an effective leader must be committed to not only enjoying the best of times but, commit himself to work through the worst of times.

It is an interesting fact that the most successful of business leaders fondly remember the times of struggle for their organization. Working through problems brings an organization closer together. Finding solutions is absolutely intoxicating.

Remember to draw on the diversity of talent that is resident in an organization. Effective leadership cannot be provided without assistance from others. This kind of joint effort is rewarding to all as participation in problem solving makes involvement in the organization personal.

- Delegates responsibility and authority to his management team, specialists, and staff

**Example:**

Delegation of responsibility and authority allows an organization to utilize the capabilities of the many and varied talents and skills that members of an organization bring to the workplace.

When a person is assigned responsibility they must also be accorded the authority to carry out their mission. People should be rewarded for success and allowed to fail. We all learn from mistakes if we're allowed to make them. It is a rather naive notion to believe that a workplace can function without mistakes being made.

The only organization that does not make mistakes is an organization that is doing nothing. Clearly, doing nothing gets a company nowhere. Failure is part of the learning process leading to success.

- Sees mistakes as an opportunity to improve the company and its people

**Example:**

The LAC director had been a veterinarian prior to becoming the director. One day, as the director was making rounds of the LAC he passes a cow in labor being attended to by a young dairy herdsman. In their conversation the director finds that this cow has already calved four times previously. Further, the young herdsman tells the director that he has been with this cow for some three hours already. The cow has been working so hard that it is in a lather. The director knows what the problem is—it's a breech presentation.

Rather than just tell the herdsman exactly what to do he leads him through a series of questions that set off the alarm in the herdsman's mind: breech presentation!!

Now that he knows what the problem is, the herdsman knows how to act. He tells the director that he is upset with himself for not asking for help sooner.

From this small lesson the herdsman learns many greater lessons. He knows that the director was once a practicing veterinarian. He knows that at this LAC you are expected to learn from your mistakes, but that you'll never be punished for consulting others for advice. The director carefully and without rancor explains how timeliness is important in breech presentations and how the herdsman should have known that the cow was in trouble because she was in a lather. These are all valuable lessons and may be needed at a time when perhaps no one will be around to assist the herdsman. The depth of the lesson comes from the willingness of this LAC to allow its members responsibility and the freedom to make mistakes.

- Makes decisions, takes decisive action, and takes responsibility for both

- Is sensitive to the necessity to balance the needs of his constituencies

**Example:**

The LAC affects various constituents, including workers, pensioners, share holders, and land owners. In some cases it affects them in the same way and in other cases affecting the group or certain members of the group differently. The best corporate philosophy is one which attempts to serve the needs of its constituents without harming any of its customers or constituents, while encouraging the growth of the LAC.

Suppose LAC XYZ has made the commitment to exceptional quality in its corporate philosophy. The manager receives a phone call from the dairy plant and is told that milk quality from his farm has been dropping off over the past several months but has now seemed to stabilize at some lower level. Although this level is lower than in the past, it is not low enough for the milk plant to justify paying a lower price for the farm's milk. What does the manager do next ?

- Delegates responsibility and authority to those under him

**MODULE I.3 MANAGING AND MOTIVATING LABOR****Rule:**

The essence of control is that each function (LAC enterprise) “understands” that it is only as good as it is allowed to be by the other functions. The herd manager is only as good as those feeding her cows, and those harvesting forage and other crops allow her to be .... It is all connected

Providing incentives and rewards for good performance, and penalties (??) for mediocre performance allows each function to be as good as it can be.

**A. Asserting and Maintaining Control**

Control of the LAC rests with the Director, who is elected by the shareholders, and who is the Chairman of the Management Board, as well as the Chief Executive Officer of the LAC.

The director is responsible not only to the management board or the share holders who elect him. He should serve all who work for him as well.

Maintaining control of the LAC depends on satisfying the LAC’s four constituencies, each of which may have very different interests.

**The LAC’s Four Constituencies:**

1. Workers — shareholders still employed by the LAC
2. Pensioners — retired shareholders
3. LAC Shareholders — working-age shareholders not employed by the LAC
4. Land owners — persons renting land to the LAC

The director gains the power to control the organization at his election. His subsequent actions as director determine whether he maintains or loses his authority.

Among the first challenges to a new director’s control may come from pensioner and worker shareholders who believe using LAC equipment to work personal plots is their right as owners.

Surely farming their private plots provides food and potential cash income, and people need to find a way to care for their land and keep it productive.

But the director’s primary responsibility is to do what is best for the LAC, because what is best for the LAC is also best for the shareholders over the long term. Equipment and equipment operators are needed to work the LAC’s fields, if the LAC is to produce feed for its livestock and salable products upon which shareholders’ incomes and dividends depend.

**Maintaining control requires that the director’s decisions and actions:**

- Not be influenced by his previous relationships to co-workers
- Be seen as fair and appropriate
- Do not grant special privileges to his friends that other individuals or groups do not receive

- Meet the expectations of his constituencies
- Are truly driven by what is best for the LAC
- Be supported by clear and forceful communication of his decisions and actions, and why he is convinced that his actions are in the best interests of the LAC, its owners, and its workers.

#### **Rules for Maintaining Control:**

1. **Be Fair** — Do not favor any groups or individuals.
2. **Be Firm** — If you have given directions that a particular action be taken, insist that your directions are followed.
3. **Stay Focused on the Goal** — When certain goals are to be met don't deviate unless it is clear to everyone involved that the focus has changed for good reason, and not for whim.
4. **Be Just** — Individuals who fail to meet your work standards must understand that their continued employment depends on changing their attitudes toward their work.

Allowing some people to slack off is unfair to those who take their work commitment seriously.

First inform the slacker that he is not being conscientious and give him time to respond. If he fails to improve, and you had threatened dismissal if slacking continued, you have no choice. If you wish to maintain your authority, you must dismiss the person. Doing so may be very painful, but, it will clearly change the work atmosphere. Workers may have felt that you are just. After the firing they clearly know you are serious about meeting company standards for quality and level of effort.

## **B. Giving Worker-Owners a Strategic Focus**

Many companies operating in market economies must continually deal with pressure from their workers for higher wages. Giving in to such demands often only leads to new pressure for additional increases.

Most of the world struggles continually with this problem without a suitable solution. The problem is that the employees focus primarily on "How much am I being paid today?", rather than on the long-term survival of the company they work for.

**Profit Sharing.** LAC employees receive wages as workers. They also receive dividends out of company profits as owners, if and when dividends are declared by the management board.

Convincing these worker-owners to accept a company-wide profit sharing program, in place of wage increases has two benefits for the LAC:

- Implementing a profit sharing program does not create an immediate increase in cash requirements as profit shares are paid annually
- Higher annual profits automatically raise the worker-owner's total annual income, which motivates the worker-owner to do everything possible to raise annual profits
- Workers begin fulfilling their dual role as both LAC employees and owners

It will be easier to get them to vote for increasing LAC productivity by buying new

equipment, getting rid of non-productive workers and operations and all other actions that contribute to the economic health of the company.

**Example:**

Once a profit sharing program is in place, actions leading to higher profits also raise everyone's incomes automatically. And actions that lower profits also lower incomes automatically:

- A tractor driver is more likely to properly maintain his tractor so as to avoid unneeded tractor repair costs, and to use the tractor only on LAC fields during regular working hours
- Field workers are motivated to achieve the highest possible harvests and to reduce waste
- Management and workers will be keenly interested in any ideas that increase productivity or decrease operating costs
- Raising quality standards throughout the LAC's operations so as to increase revenues becomes a goal shared by all shareholders
- Slacking workers will be encouraged to reform by productive workers who do not want to share profits with non-productive workers

**Successfully implementing a profit sharing program.** Gaining commitment to the plan will take time and leadership.

Sharing profits is a totally new idea, and may even be threatening at first. It is important to spend time educating and fully informing the workers about all of the program's details. Your challenge in marketing the program to your employees is to help them become comfortable with the idea through understanding how it will work and why participating in the program is in their best long-term interest.

Give every employee a clear statement and explanation of the profit sharing formula. Hold information sessions — as many as people feel they need.

The key is that each employee understands that each extra lira of company profits earned will earn him additional income at the end of the year. Explain his percent share to him.

Be careful in your calculations to account for the extra taxes owed when profits increase.

Then, be absolutely certain that the profit shares owed to workers is actually paid in full and on time.

**Example:**

Profit sharing plans do not necessarily distribute all profit increases to the owners. Suppose a LAC employs 100 workers, and that L300 of every L1,000 increase in profits must be paid in taxes. The remaining L700 could be distributed fully at the rate of L7 per worker-owner.

But doing so leaves nothing to pay out as dividends to the shareholders. Nor will such a plan allow the company to grow.

It would be strategic to set aside L500 of the after-tax increase in profits for dividends and investing in new technology and equipment that will increase productivity and profits in the future.

Under this formula, each workers would receive L2 in profit sharing for each L1,000 profit increase.

**C. Benefits and Incentives****Technical Note:**

**Benefits** are services or privileges having value that are given to all workers of the same class.

Allowing all tractor drivers to drive their tractors home is a benefit of being a tractor driver.

**Incentives** are privileges or monetary payments given as a reward for meeting or exceeding a performance standard. Incentives may be granted to individuals, to groups of workers, or to all workers.

Giving all tractor drivers and field workers a one-day paid holiday for completing the hay harvest before June 10, is an incentive.

Offering workers benefits and incentives beyond their salaries helps the LAC become more successful.

Workers are inputs to production, just like seed, fertilizer, and livestock. Just like other inputs, their costs (wages) rise when they are in short supply, and fall when labor surpluses exist.

Unlike other inputs, however, the worker is a human being with emotions and needs that go beyond receiving wages for time spent on the job.

Two often conflicting workplace goals faced by managers:

- Maximizing production efficiency and
- Satisfying the human needs of its workers.

Giving the workers everything they need and want will bankrupt the company. Focusing only on efficiency may cause extreme worker unhappiness and also bankrupt the company. A balance must be struck between efficiency and human comfort.

**How does a director determine which benefits and incentives to provide?**

First, determine what other LACs offer in their employment packages.

Second, measure your organization against other LACs:

1. How similar are other LACs' operations to yours?
2. How does employee life there compare to your employees' lives?
  - a. Is housing more expensive for instance?
  - b. Do their employees seem to be satisfied with their compensation?
  - c. Are their employees the kind of workers you want?
3. Is there more or less worker turnover at other LACs?
4. How do the turnover rates compare for different positions?
5. Will their workers accept profit sharing in place of wage increases?
6. Which workers are paid on a hourly basis and which workers receive salaries?

When you have collected and reviewed the information, it still will not be easy to decide where to start. Uppermost in your mind must be the question, "What can the LAC afford?"

Is there enough money expected every pay period to provide the proposed benefits and incentives? Can the groups of workers receiving the benefits and incentives contribute enough to profit so that the benefits do not lower the LACs cash flow and profits?

**D. Job Descriptions and Performance Evaluations**

**Job Descriptions** provide a framework for identifying the responsibilities and expectations of each position on the LAC's work force. They serve many functions, including:

- Gives the worker a sense of being wanted and needed at work
- Focuses on the position and not the individual currently occupying the position when the job description is designed
- Contains a list of specific primary responsibilities
- Contains a list of secondary or potential work that a person occupying the position should be capable of doing

This second list allows the person to know where and how he can help the LAC in other areas as the need arises. Such flexibility is very useful during times when the work load is greater than expected, or when unusual numbers of staff are absent from work.

- Provides an excellent basis for interviewing and evaluating candidates for each position
- Informs the employee when his or her performance will be evaluated
- Provides the criteria for judging performance

The director or supervisor should give people hired for each position a copy of their job description. Review it with the employee to make certain he or she understands what is expected, and make sure the LAC gets a signed copy of the job description from each employee. Doing so will insure that both parties are clear about their responsibilities and

expectations.

**Performance Evaluations** fall into two categories: informal and formal.

**Informal Evaluations** involve verbal comments on the person's performance.

**Example:**

The director sees the foreman and several workers from the crop harvesting enterprise, and remembers that yesterday he saw them working into the evening baling a hay field before it rained. The director stops and tells the group how much he appreciates the crew's effort, and how much it means to the overall success of the farm.

Never underestimate the importance that such informal evaluation. It demonstrates that the director cares about each worker, and that each worker is integral to the success of the farm.

**Formal Evaluations** are written, and measure the worker's performance in meeting the responsibilities and expectations listed in his job description. They are conducted by an employee's direct supervisor.

Improving employees' performance is the main goal in evaluating them. It is essential that only work related factors are included, and that the evaluation be conducted in a fair and nonthreatening manner.

It is a good policy for the director to read all the evaluations to make sure that they have been done fairly and meet the goals of the LAC.

**Guidelines for Conducting the Formal Evaluation:**

1. Conduct it twice each year for all employees

People want and need to have their successes recognized. They need to hear constructive criticism if they are to grow and become more valuable employees.

Do not assume that people know how their performance compares to the expectations of the job description. Use a detailed, written evaluation form that measures performance and its standard for each position is evaluated.

2. Include a narrative about the worker written by his direct supervisor that covers concerns raised at the last evaluation, and examples of particularly strong performance.

**Example:**

Any changes in the on-time record of a worker who was noted as often coming to work late on the previous evaluation should be noted on the next evaluation.

Or, in the case of a tractor driver, the supervisor might note, "The fan belt on Rimantis' tractor broke and a new one was not going to be available for one week. Rather than just wait for the new fan belt, he made a temporary one from an old pair of stockings and finished mowing the hay fields on schedule."

3. Once the formal evaluation is written, the worker is invited to review it and to make comments and add explanations for why and where he disagrees with the evaluation.
4. The completed evaluation is signed by the supervisor and the worker.

5. One copy is kept in the administration offices, and one goes to the worker.

**Example:**Tractor Driver

Evaluate the driver's performance on each of the following criteria, using a ranking of: top 25%, top 50%, or top 75%.

- Not showing up for work \_\_\_\_\_
- Being late to work \_\_\_\_\_
- Completing work assignments in a timely manner \_\_\_\_\_
- Completing work assignments thoroughly \_\_\_\_\_
- Works well with others \_\_\_\_\_
- Follows directions well \_\_\_\_\_
- Understands his (her) job responsibilities \_\_\_\_\_
- Is enthusiastic about his (her) work \_\_\_\_\_
- Respects the company's equipment \_\_\_\_\_
- Maintains the equipment well \_\_\_\_\_
- Reports needed equipment maintenance and repairs \_\_\_\_\_
- Rank among all tractor drivers \_\_\_\_\_

**MODULE I.4 PURCHASING INPUTS****A. Using Cash Wisely**

Cash is the life blood of a company. Without it the company is strangled and dies. Company directors everywhere are always aware of the need for cash.

Successful directors also know how to use excess cash wisely when they have it. Unless there is some emergency need for it, cash is a resource to be “invested” in strengthening the company.

Spending it on a new refrigerated bulk tank benefits the dairy enterprise, raises milk quality and the price received for milk. Purchasing a new baler improves the quality of the forage fed to the cows, increases the herd’s health, and is likely to raise both the quality and quantity of milk produced.

But once the tank is purchased, the LAC loses the opportunity to purchase the baler, or to use the cash spent on the tank in any other way.

The opportunity cost of purchasing the tank is the value to the LAC of other purchases that could have been made with the same cash. The successful director calculates the return expected from competing uses of the cash, and selects the one having the greatest return.

**Calculating Expected Return from Competing Uses of Cash:**

**Step 1:** Determine the return that can be received by depositing the cash in a bank or by making a short-term loan to another business. This return becomes the standard that all other possible uses of cash must at least equal.

**Step 2:** Make a list of all other spending options, and estimate the potential monetary return for each.

**Step 3:** Compare the return available from the best spending alternative with investing the cash in a bank deposit or a loan, and make a decision.

**Example:**

The LAC has L50,000 excess cash, and the director has three choices:

1. Loan the money to the bank and get interest annually
2. Buy enough fuel for its annual needs
3. Increase all workers’ wages

The director calculates the potential returns from each choice:

1. The bank will pay the LAC 18 percent interest annually
2. Fuel costs increased 23 percent last year, and 5 percent in the past three months
3. Workers received a 6 percent pay increase last month

Questions for thought and discussion:

1. Which option provides the highest return?
2. It appears that fuel costs will continue rising by 20-23 percent a year, but can I be sure?
3. If the workers’ salaries are increased how will that benefit the LAC?

## B. Purchasing Inputs — Applying the “Garbage-in Garbage-out” Rule

In the past, agricultural inputs were allocated by central planners according to the farm’s expected output.

LACs must now forecast their production levels and make their own input purchasing decisions.

In seeking supplies, the "garbage in-garbage out" rule is important to understand. Given its needs to conserve cash, it is vitally important that the LAC purchases match its supply needs.

“Garbage-in garbage-out” refers to farm inputs in particular. Purchasing high quality inputs does not guarantee high quality outputs. Many other factors, such as soil conditions, soil preparation, pest management, weather, and cultivation and harvesting practices are involved.

However, poor quality inputs guarantee that the output will be of poor quality. If only 30-40 percent of seeds planted germinate, the fields can grow no more than 30-40 percent of the plants they could grow. Nothing the LAC managers do can make up for the poor crop production that will result.

Standards and grades are the language by which inputs are purchased. Lithuania needs to establish universally accepted terminology and specifications.

- What percent of the plants will germinate?
- What levels of production will the variety yield?
- How many hours can a tractor be driven between maintenance periods?
- How many hours can particular milking equipment be used before certain parts **need to be** replaced?

All of this is related to the development of standards and grades.

**Contracts** are the instruments that protect and preserve the agreements between the seller and purchaser for the delivery of products meeting specified standards and grades.

When two businesses work together, they become interdependent. A supplier can have an unlimited supply of a high quality goods. Without customers, he has no business.

The supplier’s long-term survival is damaged when products are sold to a customer who cannot pay according to the terms of sale.

A LAC buys seed in the spring knowing that it may not have the cash to pay for that seed until the crop is harvested and sold. The director should not agree to buy the seed unless the sales agreement is consistent with this reality.

If the LAC’s current supplier cannot or will not agree to terms that are consistent with the LAC’s cash flow and ability to pay, there may be someone else who will. Seek out competing suppliers until you find one who will work with you.

## **SECTION II. MONITORING BUSINESS PROGRESS IS THE KEY TO SURVIVAL**

### **MODULE II.1 FINANCIAL MANAGEMENT**

#### **A. Production Management versus Financial Management**

In the past, the enterprise director was only responsible for Production Management:

- Meeting quality standards
- Meeting quantity standards
- Motivating the labor force
- Acquiring production inputs
- Product marketing
- Maintaining and repairing machinery and equipment
- Buying new equipment

In the future, the successful leaders of prosperous LACs operating in Lithuania's market economy will regularly monitor their company's financial performance and make decisions using Financial Management in addition to Production Management.

Financial Management is the link between production activities and generating the money needed for paying wages to workers, dividends to shareholders, principal and interest payments to creditors, and taxes to the government; and for purchasing inputs and making investments.

#### **B. Financial Accounting and Financial Management**

The LAC director and specialists have years of experience with financial accounting. To lead your company to prosperity, you must acquire the new tools that make up Financial Management.

Table II.1 summarizes the main differences between financial accounting and financial management.

Table II.1: Financial Accounting versus Financial Management

<b>Financial Accounting</b>	<b>Financial Management</b>
1. Provides information for people outside your company	1. Provides information for you and the people inside your company
2. Is required by law	2. Is voluntary, but essential to successful management
3. Must contain specific information and be reported at required times	3. Is flexible — you decide what information is relevant for your company
4. Focuses on the past	4. Focuses on the future
5. Looks only at the business as a whole	5. Can examine individual enterprises, as well as the business as a whole
6. Is an end unto itself: a report written for people outside the company having little management value	6. Is a means to an end: strategic planning and managing for profit

### C. Profits and Financial Management

Profits are calculated from the financial accounting system at the end of the year and periodically during the year.

Because they equal the difference between income and expenses, profits are one important indicator of business success over time

BUT Profit is of little value as a management tool as it cannot be used in making day-to-day management decisions.

When profit is calculated from the realization accounts and included in your income statement:

- **Depreciation** is treated as a cost  
— even though there are no direct costs involved
- **Income** is recorded when a product is sold  
— even though you may not receive payment for several months or even a year
- **Expenses** are recorded when an item is purchased  
— even though you may not pay for it for several months or you had to borrow money which is not treated as a direct expense in your realization account

Profit calculated from the realization account does not tell you what you really need to know:

"How much actual cash (money) do we have right now and over the coming months for paying wages, interest, dividends, bills, and taxes?"

- **"Making a Profit"** does not mean that all expected expenses have been met; or that they can be met.
- **Profit** tells you almost nothing about the amount of cash available to the company at any moment.

**MODULE II.2 CASH FLOW ACCOUNTING IS THE HEART OF FINANCIAL MANAGEMENT**

**A. Cash Flow Accounting and Financial Accounting**

**Cash (money), not profit, is the life blood of any business:**

- Employees are paid with cash (money), not profits
- Bills are paid with cash (money), not profits
- Dividends are paid with cash (money) not profits

**Technical Note:**

Cash consists of:

- Actual litas on hand
- Bank accounts, including foreign accounts, that can be easily converted into cash
- Short term government or other securities that can be converted to cash within six months

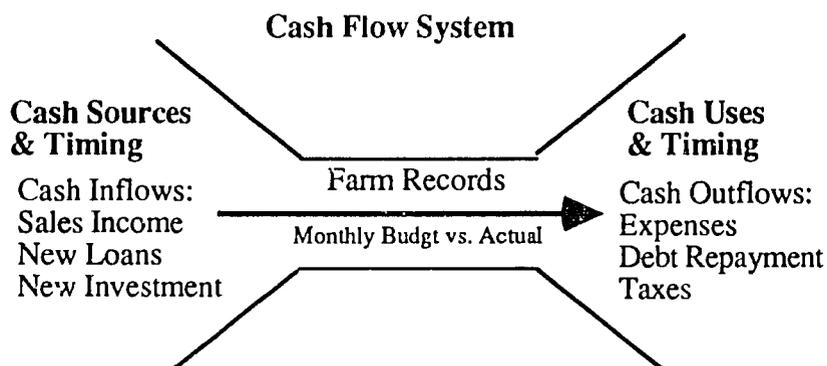
Cash Balance is the amount of cash and near cash in bank accounts available to the company at any time.

Cash Flow is the change in available cash over a period of time.

**Financial Accounting** records income and expenses on the realization account when the goods and services change hands.

**Cash Flow Accounting** records income and expenses when the actual transfer of funds occurs—when actual payments are made or income is received. See Figure II.1.

Figure II.1: Cash Flow System



**Example:**

If inputs are paid for when they are purchased, but the LAC is not paid immediately for products sold, the realization account may show a "profit," while, on a cash flow basis, there is not enough money to buy additional inputs.

Suppose that on a realization account basis, your company earned a profit of L50,000 in 1994, even though no money has yet been received from the sale of cattle worth L80,000.

Your members demand that you declare a cash dividend for L50,000.

Cash flow accounting, will provide the facts needed to show the membership that the company cannot afford to pay a dividend before payment for the cattle sale is actually received.

If you learn that only L40,000 of the L80,000 is likely to be received, your cash flow analysis gives you the basis for reducing or eliminating the dividend entirely, and thereby exercising effective leadership for your LAC.

**B. The Cash Flow Statement**

The Cash Flow Statement contains the same income and expense items as financial accounting with two essential differences. Items are not recorded until actual expense payments are made and income is received. And the information has been reorganized to help management make business decisions.

The Cash Flow Statement also:

- Provides a working record of the actual amount of cash on hand or in working bank accounts at any time
- Explains the sources of income and expenses for individual enterprises, at specific times (monthly, quarterly, or annually)
- Measures the impact on the company's "cash balance" of increasing wages, purchasing new equipment or other inputs, making investments, taking out new loans, repaying existing loans or paying dividends to members
- Records, identifies and compares projected borrowing with actual borrowing, lending and loan repayment activities in a special financial activities section
- Reports the amount of money available now, next month, or several months in the future to meet regular operations expenses or investment expenses
- Is a basis for monitoring the performance of individual enterprises and the whole company against the annual operating plan

**C. The Cash Flow Statement Answers Critical Management Questions**

- Financial resources (cash) are always limited. Opportunities to spend cash are always numerous. What are the best uses of the limited resources available to the LAC?
- Is the farm plan financially feasible?
- Will the company generate enough cash to pay all the bills when they are due?
- Will the company generate enough cash to repay existing and new loans?

- How well are individual enterprises and their managers performing? Who needs to be rewarded, who is becoming a problem?
- Which enterprises should be expanded, contracted, or added to the company?
- Can the company payroll be met six months from now? Twelve months from now?
- Would there be enough cash on hand to pay a dividend if one is declared at year-end?
- Must a short-term loan be taken to buy fertilizer which can increase barley yield from 20 cwt/hectare to 30 cwt/hectare? When can this money be paid back?<sup>1</sup>
- How long will it take to pay back a L50,000 loan for a new tractor?
- How can the director demonstrate to the membership that it would be better to invest this year's profits in new machinery than to pay them all out as dividends?

**Examples:**

1. In autumn you do not have money to purchase fertilizer which can increase your wheat yield by 25%. But you have made a "cash flow projection" which shows that you will have money to pay for fertilizer after February 1 when you expect to receive cash from the sale of this year's wheat crop. On this basis you decide to buy the fertilizer, requesting that payment be deferred until March 1 or you borrow money to be repaid on March 1.
2. The milk processing plant will pay a premium of 5 litas per cwt if you can improve your milk quality to the next higher level. Your present milking equipment is old and the plastic tubes carrying milk to the cooler are contaminated. You can increase quality by replacing the plastic tubes or by buying new pails and requiring the milking crew to dump milk from the milking machines into the new pails and carrying them to the cooler. You do not have enough cash on hand to replace the plastic tubes or to buy new pails. What would be your immediate action? Would this be different if you had sufficient cash to buy the pails? If you buy pails now and plan to replace the tubes next year what would you do with the pails?
3. The LAC buys 1,000 liters of diesel fuel on January 10 and delivery is made on January 15, but payment is not made until March 1 by transferring funds from your account to that of the supplier. The "cash flow" operations transaction is recorded as March 1.
4. The LAC sells 200 tons of wheat to the state mill on October 1 and delivery is made on November 1. But payment for the grain is received on February 1 the next year by transferring funds to your account. The "cash flow" operations transaction is recorded as February 1.

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<sup>1</sup> Throughout this section the term "cwt" means "kilogram-hundredweight." The Lithuanian "cnt" is an abbreviation for "centner or "kilogram-hundredweight."

## MODULE II.3 PREPARING THE CASH FLOW STATEMENT FROM THE FINANCIAL ACCOUNTING SYSTEM

### A. Structure of the Cash Flow Statement

Items are recorded on the Cash Flow Statement in one of three categories:

- Operational activities
- Investment activities
- Financial activities

A full cash flow projection budget is demonstrated in Table II.2.

- **Operational Activities** include all income and expenses associated with production operational activities.

Operating Income		Operating Expenses	
Milk sales	Other field crop sales	Labor	Purchased feed
Cattle sales	Machinery hire services	Social insurance	Repairs & parts
Pig sales	Government payments	Land rent	Machinery hire
Grain crop sales	Other operating sales	Fertilizer/chemicals	Marketing
Seed	Processing income	Vet. medicine/breeding	Transportation
		VAT & other taxes	Electricity
		Fuel and oil products	Other
		Livestock for fattening	

- **Investment Activities** include direct payments or receipts from the purchase or sale of buildings, equipment and production or breeding livestock.

Investment Income	Investment Expenses
Breeding livestock sales	Breeding livestock purchases
Production livestock sales	Production livestock purchases
Machinery and equipment sales	Machinery and equipment purchases
Marketable security sales	Marketable security purchases
Other investment sales	Other investment purchases

**Note:** Purchasing livestock is an investment expense. Taking out a loan to pay for the livestock is recorded as financial income at the time the loan becomes effective.

- **Financial Activities** include funds received from Working Capital Loans, Investment Capital Loans, sales of stock, and from outside savings accounts.

- Working Capital Loans provide cash needed to meet short-term operational expenses such as buying fertilizer and seeds which will be paid back after the crop has been harvested.
  - Are short-term loans since repayment is expected in 12 months or less
- Investment Capital Loans provide cash to purchase longer term assets such as new machinery and equipment which will be used for more than one year.
  - Are long-term loans since repayment requires more than 12 months

- Financial Expenses are normal business operating costs, and are therefore included in the expenses section of the form.  
— Principal payments are financial activity expenses
- Financial Income is supplementary to normal income flows from operational activities, and is entered at the bottom of the cash flow statement, rather than with operating or investment income.

<u>Financial Income</u>	<u>Financial Expenses</u>
Cash inflow from new short-term bank loans	Short-term loan principal repayment
Cash inflow from new long-term bank loans	Long-term loan principal repayment
Cash from other loans	Interest payment on outstanding loans <sup>2</sup>
Cash from sale of new stock	Cash payment to redeem shares
Dividends received on stock owned	
Interest received on bank accounts	
Cash inflow from savings	

### Examples:

1. A working capital loan of L10,000 to pay for winter wheat is taken out on August 20. The L10,000 is recorded as income received from a short-term loan in the financial income section.  
If the fertilizer is purchased and paid for on September 1, the payment is recorded as an operations expense.  
The income received from the loan offsets paying for the fertilizer, leaving the overall cash flow balance unchanged.
2. Suppose that, instead of needing a loan, there was enough cash to pay for the fertilizer when it is bought on September 1.  
The cost of the fertilizer is entered as an operations expense, but there is no offsetting financial income inflow.  
The cash flow balance thus declines by L10,000.
3. A new tractor costing L50,000 is purchased on April 1. It is paid for on April 15 with money from a new loan.  
The L50,000 is entered on April 15 as an investment expense.  
The L50,000 loan is recorded as financial income from a long term bank loan, and the cash flow balance does not change.

## B. Budget-to-Actual Cash Flow Projections

Budget-to-Actual Cash Flow Projections compare projected cash inflow and outflow with actual cash inflow and outflow. The performance of each enterprise and the whole company can be monitored using budget-to-actual cash flow statements

<sup>2</sup> Interest payments are sometimes considered operating expenses since interest is usually paid regularly and independent of principal payment.

### **Completing a Cash Flow Projection Statement**

A three-month cash flow projection and adjustment for actual experience is provided in Table II.2. Under the first column for each month income and expenses are recorded according to operational and investment activities. Planned investment expenses are also recorded along with other expenses to provide total expected expenses. But, income from financial activities is recorded only after a "net cash balance" based on operational and investment income is projected. Based on the projection, if starting cash balances plus actual income from expected receipts from product sales or from worn-out assets is greater than expenses a positive cash flow is recorded, and there is no problem. But if the sum of starting cash balances plus expected income is less than expenses you are faced with the problem of either selling more assets, deferring some expenses, raising more income from production activities, borrowing money or drawing on savings from other accounts. Or you may decide to carry a negative cash balance forward to the next month before making similar entries for that month.

At month end, actual income and expenses are recorded and compared with estimated entries. To gain maximum impact from cash flow projections, new estimates should be prepared each month based on actual income and expenses. Although the example provides projections for three months, the optimum projection period is over a complete production year.

Table II.2: Cash Flow Projection

Item	January	January	February	February	March	March
	Amount Budgeted	Actual Results	Amount Budgeted	Actual Results	Amount Budgeted	Actual Results
1 Beginning cash balance (200+210+220+230)	5,000	5,000	11,650	8,500	12,850	9,550
<b>Operating Income</b>						
2 Milk	25,000	25,000	25,000	26,700	25,000	28,000
3 Cattle						
4 Pigs	5,000	5,000				
5 Grain crops						
6 Other crops						
7 Seed						
8 Machinery Services	500					
9 Government payments						
10 Processing activities	4,000	3,500	4,000	3,500	4,000	3,500
11 Other operating sales						
12 Sub total (2 to 11)	34,500	33,500	29,000	30,200	29,000	31,500
<b>Investment Income</b>						
13 Breeding livestock						
14 Production livestock						
15 Machinery & equipment						
16 Marketable securities						
17 Other						
18 Subtotal (13 to 17)	0	0	0	0	0	0
19 Total Cash Available (1+12+18)	39,500	38,500	40,650	38,700	41,850	41,050
<b>Operating Expenses</b>						
20 Labor	12,500	12,500	12,500	13,000	12,500	13,000
21 Social insurance	3,750	3,750	3,750	3,900		
22 Land rent					20,000	20,000
23 Fertilizers/chemicals					9,000	10,000
24 Vet. medicines/breeding	50					350
25 Electricity	6,000	7,000	6,000	7,000	6,000	7,000
26 Fuel and oil products						
27 Purchased feed						
28 Repairs (incl. parts)	800	2,000	800	200	800	500
29 Machinery hire						
30 Marketing and transport						
31 VAT & other taxes	2,500	2,500	2,500	2,800	2,500	2,800
32 Other						
33 Subtotal (20 to 32)	25,600	27,750	25,550	26,900	50,800	53,650
<b>Investment Expenses</b>						
34 Production livestock						
35 Breeding livestock						
36 Machinery and equipment						
37 Building improvements						
38 Marketable securities	250	250	250	250	250	275
39 Other						
40 Subtotal (34 to 39)	250	250	250	250	250	275
<b>Financial and Other Expenses</b>						
41 ST Loan repayment	2,000	2,000	2,000	2,000	2,000	2,000
42 LT Loan repayment						
43 Other						
44 Subtotal (41 to 43)	2,000	2,000	2,000	2,000	2,000	2,000
45 Total Cash Required (33+40+44)	27,850	30,000	27,800	29,150	53,050	55,925
46 Cash Available Less Cash Required (19 minus 45)	11,650	8,500	12,850	9,550	-11,200	-14,875

Table II.2 Cash Flow Projection, Continued

Item	January	January	February	February	March	March
	Amount Budgeted	Actual Results	Amount Budgeted	Actual Results	Amount Budgeted	Actual Results
<b>Cash Adjustments (Financial Activities)</b>						
47 Cash inflow from savings						
48 Cash position before borrowing (46+47)	11,650	8,500	12,850	9,550	-11,200	-14,875
49 Cash from new ST loans					20,000	20,000
50 Cash from new LT loans						
51 Cash from other loans & advances						
52 Outflow to savings						
53 Ending cash balance (48+49+50+51-52)	11,650	8,500	12,850	9,550	8,800	5,125
<b>Loan Balances (end of month)</b>						
54 Current ST loans					20,000	20,000
55 Last year ST loans	12,000	12,000	10,000	10,000	8,000	8,000
56 All LT loans						
57 Total Loans (54+55+56)	12,000	12,000	10,000	10,000	28,000	28,000

**Exercise: Completing and Using a Cash Flow Statement**

Before the Budget-to-Actual Cash Flow Statement can be used as a management tool, monthly income and expense estimates must be made; these estimates are cash flow budgets. The budgeted amounts are then compared with the actual amount and timing of income and expenses (actual cash flow) during the year. Management's primary goal in using this tool is to minimize the variance between the budget and the actual. Enterprises and their managers generating more net cash than was planned are *stars*, for which expansion and rewards may be considered. Enterprises and managers performing below the plan are *problems*, for which contraction, elimination, restructuring, and penalties may be considered.

Challenge: From your current knowledge of your company operations, and working with your economists and accountants, prepare a six-month cash flow budget for the first six months of 1995.

Question: How would you have changed your management decisions during 1995, if you had this tool?

## MODULE II.4 FINANCIAL HEALTH INDICATORS

Think how long it would take to get to Kleipeda if you had to stop every 20 kilometers to check the gasoline, oil, and water levels, and the water temperature in your car. You might never take the trip in such a situation! Fortunately vehicles have gauges for measuring fuel levels, water temperatures, and oil pressure. One look and you know whether everything is fine, or that you had better take action because you are low on gas, or the engine is overheating.

If you had to recalculate all the financial, investment, and operations sections of the cash flow statement every time you wanted to check the financial health of your business, you might not do it very often.

Fortunately, this is not necessary. A business has gauges too. They can easily and readily be calculated by your economist from the balance sheet. With one look, you can check your company's short-term and long-term financial health, and determine what action you need to take.

### A. Liquidity Ratios

These ratios measure the company's ability to meet its financial obligations over the short term — that is over the next 12 months.

#### Technical Notes:

1. In liquidity analysis, "cash and near cash" includes accounts receivable from the sale of goods and services which can be converted to cash within 6 months in addition to the cash items in the cash flow statement.
2. Short Term
  - Liabilities — All bills, obligations, and debts that must be paid within 12 months
  - Cash and near cash on hand — sources of cash and assets that can be turned into cash within 12 months
  - Assets
    - Cash and near cash on hand
    - Production inventories and accounts receivable for goods already sold
    - Production assets: feed on hand, fuel, spare machinery parts, growing crops and livestock
3. Long Term
  - Liabilities — All bills, obligations, and debts that must be paid over a period longer than 12 months
  - Assets — All sources of cash assets that could be turned into cash over a period longer than 12 months

1. The **Quick Ratio** measures the ratio between short-term cash and near cash and short-term liabilities. It is used by banks to measure a company's ability to pay off short term debts—including a possible new bank loan—in an emergency.

$$\text{Quick Ratio} = \frac{\text{Cash and Near Cash}}{\text{Short Term Liabilities}}$$

When the company is "liquid", the Quick Ratio is at least equal to 1. In an emergency, it can quickly raise enough cash to pay all its short-term liabilities.

Under current Lithuanian conditions of tight credit and high interest rates relative to the increase in product prices, LACs should attempt to keep more cash and near cash on hand and hold the quick ratio close to 1.0.

In Table II.3, the average Birzai Region quick ratio fell from 1.77 in 1993, to .68 in 1994.

2. **Quick Capital** is another measure of liquidity, but the result reflects either a surplus or deficit in cash after all short-term obligations are paid. It should be positive if the amount of money on hand is sufficient to meet emergency expenses.

**Quick Capital = Cash and Near Cash - Short-term Liabilities**

The average level of Quick Capital in the Birzai Region fell from a surplus of L135,489 in 1993, to a deficit of L28,952 in 1994.

3. The **Current (Working Capital) Ratio** measures the company's access to sufficient income in order to pay off its short-term liabilities including the current portion of long-term obligations. It is used by bankers to indicate an ability to repay long-term loans.

**Current (Working Capital) Ratio =  $\frac{\text{Short-term Assets}}{\text{Short-term Liabilities}}$**

The current ratio is often between 2 and 3 for American farms, indicating that total short-term assets are 2 or 3 times greater than short-term liabilities.

The average current ratio in the Birzai region was 6.57 in 1993, and 13.21 in 1994.

These numbers must be interpreted carefully, since asset figures were artificially inflated by 1994 indexation of buildings and equipment. Recent changes in the LAC Chart of Accounts shifts milking cows and breeding pigs from long-term assets to short-term assets. This change raises the value of short-term assets relative to short-term liabilities, and increases the company's current ratio, while not changing its underlying debt level.

We expect current ratios to average between 5 and 6 for prosperous LACs in the future.

4. **Working Capital** measures liquidity as a surplus or deficit in cash after all short-term obligations are paid.

**Working Capital = Short-term Assets - Short-term Liabilities**

Average Working Capital rose from L985,459 in 1993 to L1,112,995 in 1994.

5. The **Debt Structure Ratio** equals current (short-term) liabilities as a percent of total liabilities

**Debt Structure Ratio =  $\frac{\text{Current Liabilities}}{\text{Total Liabilities}} \times 100$**

The Debt Structure Ratio measures the percent of total liabilities that are due within 12 months. The higher this ratio is, the less liquid is the company.

Virtually all LAC debt is presently considered short-term. Thus the Birzai Region's average

debt structure ratio is 100 percent for both 1993 and 1994 in Table II.3.

An American farm debt structure ratio from 30 to 50 percent is not uncommon as most debt is long term.

6. **Accounts Receivable** measure the value of production sold in a previous period (month or year) for which payment has not yet been received.

Keeping Accounts Receivable low helps to maintain and build company cash balances

**Example:**

Accounts receivable for the average LAC in the Birzai Region fell from L145,706 on January 1, 1994, to L26,105 on January 1, 1995.

Most of this very large drop was due to LACs being paid in 1994 for livestock sold to meat processors in 1993.

Given lower profit margins in 1994, resulting primarily from input prices increasing faster than product price increases, the high accounts receivable accumulated during 1993 provided a one-time cash income cushion for many LACs in 1994.

Many LAC directors also responded strategically to the nonpayments of 1993. They either discontinued fattening and selling livestock for slaughter in 1994, or found buyers able to make faster payments during 1994.

7. **Accounts Payable** include input costs (excluding loans) that remain unpaid at the end of the accounting period (month or year).

Cash flow can be improved in the short run by management actions that increase Accounts Payable. However, many LAC managers decreased accounts payable, which put them in a stronger position with creditors.

**Example:**

Convinced that they could no longer rely on the government to forgive their debts and provide cash to pay their bills, many LAC managers aggressively lowered their payables during 1994 by paying off expenses and loans outstanding from 1993.

In Table II.3, the average accounts payable among Birzai Region LACs fell from L141,991 in 1993 to L76,137 on January 1, 1995.

## B. Solvency Ratios

Three ratios are available for measuring a company's ability to pay all the money it owes to outsiders (its liabilities) by selling its assets.

1. The **Debt/Asset Ratio** measures the amount of total assets (short-term and long-term) owed to lenders. The ratio should be less than 1, and smaller values are better than larger values.

$$\text{Debt/Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

If the Debt/Asset Ratio is greater than 1, the company is insolvent.

2. The **Equity/Asset Ratio** measures the part of total assets financed by Owner Equity. Equity is the value of a right or claim to a financial interest in an asset or group of assets.

### Example:

Worker "A" has a claim of 6,300 litas in the LAC for which he works, based on his shares assigned when the farm was privatized. "A" is said to have an Owner Equity of 6,300 litas or a right to claim 6,300 litas of the total LAC asset value.

Higher values are preferred but the ratio cannot be greater than 1. An insolvent company has a negative Equity/Asset Ratio since its equity is less than zero,

$$\text{Equity/Asset Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

3. The **Debt/Equity Ratio** measures the proportion of financing provided by outside lenders compared to that provided by owners.

$$\text{Debt/Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

When this ratio equals 1, outside lenders and owners provide equal amounts of company financing. The smaller the Debt/Equity Ratio, the greater the portion of total equity provided by owners, and the more attractive the company's loan proposals will be to outside lenders.

Solvency measures are not as useful in Lithuania now as they will be in the future:

- LACs hold little long-term debt
- Owner equity is divided up among a large number of very small holdings and generally does not represent a cash investment by the owner

In developed Western countries, most commercial farm debt is long-term and used to purchase assets like land, buildings, machinery and equipment. Land and building debt is usually paid off in 20 years or more. Loans for machinery and equipment purchases are usually paid off in three to five years.

Most LAC's will not be purchasing land or buildings in the near future, but new equipment and machinery purchases are likely. At that time the trade-offs between short-term and long-term debt will become a more significant management issue.

### C. Equity Control Ratio

The equity/asset and debt/equity ratios assume that management controls the owner equity. Under such conditions, a high equity/asset ratio indicates strong management control over production resources.

While equity/asset ratios are high in the Birzai region, owner equity is controlled mainly by the members (workers and pensioners) with very small individual holdings. However, each one expects the LAC to provide inputs for free or below market prices in order to keep their private farming pursuits economically viable.

Until management gains control over owner equity, its plans to invest profits into long-term, growth-producing projects will be frustrated by the short-term orientation of member-owners, who prefer wage increases and steady dividends now, to the potential higher wages and dividends that can be generated through investment and company growth.

The **Equity Control Ratio** measures the amount of owner equity that is controlled by management, either through outright ownership, or under other forms of control including voting trusts or preferred stock holdings.

$$\text{Equity Control Ratio} = \frac{\text{Management Controlled Equity}}{\text{Total Equity}}$$

Management controlled equity:

Equity owned by management + Equity under management control

Table II.3: Birzai Region: Average Liquidity and Solvency Indicators, 1993 and 1994

		1-Jan-94	1-Jan-95
<u>Liquidity Analysis</u>			
Current Ratio	Current Assets/Current Liabilities	6.57	13.21
Quick Ratio	Liquid Assets/Current Liabilities	1.77	0.68
Working Capital (L)	Current Assets - Current Liabilities	985,459	1,112,995
Quick Capital (L)	Liquid Assets - Current Liabilities	135,489	(28,952)
Cash and Bank Accounts (L)		160,096	24,735
Accounts Receivable (L)		146,706	26,105
Short-term Bank Loans (L)		35,000	15,000
Long-term Loans and Debts (L)		0	0
Accounts Payable (L)		141,991	76,137
Debt Structure	Current Liabilities/Total Liabilities	1.00	1.00
<u>Solvency Analysis</u>			
Debt/Asset Ratio	Total Liabilities/Total Assets	0.031	0.017
Equity/Asset Ratio	Total Equity/Total Assets	0.969	0.983
Debt/Equity Ratio	Total Liabilities/Total Equity	0.032	0.018

**MODULE II.5 BREAKING EVEN**

Enterprises that cannot “break even” cannot be continued over time.

**A. Identifying Enterprises that are *Stars* and *Problems***

If an enterprise’s income from sales (enterprise sales) is equal to the total costs of producing the product being sold (production cost), then the company is Breaking Even. The company is operating at the Break-even Point.

The **BREAK-EVEN POINT** is the volume of sales at which total costs equal total revenues.

A successful manager evaluates every enterprise’s needs for cash compared to its ability to generate cash through sales. By using the Enterprise Break-even Ratio for this purpose, you can quickly identify your *problem* and your *star* enterprises.

$$\text{ENTERPRISE BREAK-EVEN RATIO} = \frac{\text{ENTERPRISE SALES}}{\text{PRODUCTION COST}} = ?$$

Enterprise Category	Enterprise Break-even Ratio
Problem	LESS THAN 1 Cost exceeds sales income
Neutral	EQUALS 1 Cost equals sales income
Star	GREATER THAN 1 Sales income exceeds cost

Both the star and the problem enterprises require management action. The Stars are putting money into your business over and above costs. Maybe they should be expanded.

The problems are being financed by the stars, since they cannot “pay their own way” (finance their costs) with their own sales revenue. Maybe they should be closed, or you should develop approaches to achieve production efficiencies, or find new buyers able to pay higher prices.

<b>Example:</b>	
<u>Assume:</u>	<u>Then:</u>
Market Price = L17.5/cwt	Sales = 500 x 20.5 x 17.5 = L179,375
Yield = 20.5 cwt/hectare	Production Cost = 412 x 500 = L206,000
Total area in barley = 500 hectares	
Production cost = L412/hectare <sup>3</sup>	
	Enterprise Break-even Ratio = $\frac{L179,375}{L206,000} = \underline{\underline{.871}}$
The barley enterprise is a <i>problem</i> enterprise needing further investigation and action.	

<sup>3</sup> The appendix contains the enterprise budgets that form the basis for these examples.

## B. Break-Even Analysis

Break-even Analysis helps you determine what the problem is, and how to correct it.

The Break-even Yield Ratio identifies the break-even yield at different market prices for the given production cost;

$$\text{BREAK-EVEN YIELD} = \frac{\text{PRODUCTION COST PER HECTARE}}{\text{PRICE PER CWT}}$$

Table II.4: Break-even Yield

Production Cost (Litas/Hectare)	276	412
Price (Litas/cwt)	Break-even Barley Yield (cwt/hectare)	
15	18.4	27.5
17.5	15.8	23.5
20.1	13.8	20.5
25	11.0	16.5
30	9.2	13.7

**Action Options:** (Refer to Table II.4)

- 1) Market the barley to a buyer able to pay a higher price and/or motivate workers or improve harvesting practices to increase product quality, which results in receiving higher prices.

Break even can be achieved at a yield of 20.5 cwt/hectare and production cost of L412/hectare by selling the barley for L20/cwt.

- 2) Raise the yield per hectare by changing the type and amount of inputs being used (such as fertilizer and seed).

Break-even barley yield at a price of L17.50/cwt and production cost of L412/hectare is 23.5 cwt/hectare.

- 3) Reduce production costs by reducing labor and machinery use per hectare.

Break-even barley yield falls to 15.8 cwt/hectare when production cost is L276/hectare, and the price is L17.50/cwt.

Maintaining the yield at 20.5 cwt/hectare, and lowering production cost to L276/hectare changes the barley enterprise from a *problem* to a *star*:

$$\text{Enterprise Ratio} = \frac{\text{L17.50/CWT} \times 20.5 \text{ cwt/hectare} \times 500 \text{ hectares}}{\text{L279/hectare} \times 500 \text{ hectares}} = \frac{\text{L179,375}}{\text{L139,500}} = 1.29$$

The Break-even Price Ratio identifies the break-even market price at different expected yields for the given production cost.

It can be used by management to set minimum prices that must be achieved for each enterprise to break even. *Problem* enterprises are not reaching these minimum price goals. *Stars* are exceeding their minimum price goals.

$$\text{BREAK-EVEN PRICE} = \frac{\text{PRODUCTION COST PER HECTARE}}{\text{EXPECTED YIELD PER HECTARE}}$$

Table II.5: Break-even Price

Production Cost (Litas/Hectare)	279	412
Expected Yield (cwt/Hectare)	Break-even price (Litas/cwt)	
10	27.6	41.2
15	18.4	27.5
20.5	13.5	20.1
23.5	11.9	17.5
27.5	10.0	15.0

### C. Setting the Action (Goal-Setting) Options

- 1) Expected yield = 20.5 cwt/hectare and production cost is L412/hectare

Break-even price goal = L20.1/cwt

If that price is unrealistic, there are two action options:

- a) Raise the expected yield goal; or
  - b) Lower the production cost goal through greater efficiency.
- 2) Expected yield = 23.5 cwt/hectare, and production cost is L276/hectare

Break-even price goal = L11.9/cwt

Greater yields combined with lower production cost allows the enterprise to break even at lower market prices, and raises the probability that it will be a *star*.

#### Question:

In 1995 many Birzai farmers were faced with severe cash flow problems.

A common response was to reduce fertilizer applications or reduce land tillage to save on input costs.

Yields consequently remained low.

How can break-even analysis be used to determine whether this was a rational market-based decision?

**MODULE II.6 FIXED AND VARIABLE ENTERPRISE COSTS**

The total cost of operating a business can usefully be divided into its Fixed Cost and Variable Cost components for management purposes.

**A. Variable Costs**

A variable (or operating) cost changes with changes in production levels.

**Examples:**

1. The amount of seed planted and fertilizer used varies directly with the number of hectares seeded.
2. The wages of a tractor driver who is paid only for the time he is actually working.
3. Increasing the seeding rate or applying more fertilizer per hectare changes the production technology as well as systematically changing the variable cost per hectare cultivated, and the variable cost per kilogram of crop raised at all levels of production.

Typical variable costs include:

- Hourly-wage labor
- Seeds
- Fertilizers/chemicals
- Fuel and oil products
- Purchased feed
- Machinery hire services
- Direct marketing and transportation
- VAT and other income, profit, or sales based taxes

**B. Fixed Costs**

Fixed costs do not change with changes in production.

Typical fixed costs include:

- Land rent and leases
- Machinery and equipment
- Electricity and water
- Principal and interest payments on loans
- General insurance payments
- Property taxes
- Administrative and other fixed labor costs
- Capital and repair costs associated with using equipment owned by the company

**C. Allocating Fixed Costs to Enterprises**

Enterprise performance cannot be correctly evaluated unless accurate information is available on fixed costs. Fixed costs do not change with the level of production so efficiency gains are made by spreading fixed costs over larger output levels. Because fixed costs do not vary directly with output levels they are distributed over production enterprises using other allocation criteria.

Some fixed costs such as water and electricity can be converted to variable costs and assigned directly to an enterprise by installing meters and assigning usage and costs to individual commodity enterprise accounts. Some fixed costs represented by salaried employees can be converted to variable costs by shifting the work to hourly-wage workers.

Fixed insurance payments can be allocated over the assets or individuals covered, while land and property taxes can be allocated over enterprises in proportion to the enterprise use of land and machinery. The costs remain fixed but allocation to each enterprise is improved. The above allocations are generally not difficult but may require additional record keeping.

However, allocating machinery use and machinery repair costs pose greater problems. Most LAC accounting systems allocate fixed costs for machinery use and repairs based on the proportion of direct labor use in the enterprise. This is an incorrect practice, since no direct relationship exists between labor use in any one enterprise and machinery use in that enterprise. The following example illustrates the problem.

**Example:**

Suppose that on LAC Didelis:

- The dairy production enterprise accounts for 30 percent of all labor costs.
- Only one of the farm's seven tractors is dedicated for use by the dairy enterprise.
- Feed costs are charged to the dairy enterprise according to how much is used.

When calculating the dairy enterprise's fixed costs:

- The "tractor" line item charge should include the one tractor, not 30 percent of the allocated value of the LACs seven tractors.
- The crop production and harvesting equipment (and associated repair costs) used to grow feed crops cannot be directly charged to the dairy enterprise because the (variable) feed costs charged to the dairy enterprises should contain all costs associated with producing and harvesting this feed. If some are charged directly to the dairy enterprise the cost of feed will be too low.

Calculating annual fixed costs of operating owned machinery and equipment is more complex than allocation of other fixed costs because it takes into account a set of three cost relationships, two of which must be estimated:

- original equipment purchase price,
- the expected machinery life, and
- the expected market (or salvage) value when it is finally sold.

Table II.6 provides examples of fixed cost machinery calculations and the interaction of the three components.

**Example:**

Calculate the annual cost per hour for operating a T150 wheel tractor with

- a purchase price of L16,000, salvage value price of L600, and an estimated life of eight years, the annual depreciation charges are  $(16,000 - 600)/8 = 2,000$ ;
- annual repair costs are estimated at 1,500;
- the tractor is operated 600 hours per year.

Then: The Annual Overhead Costs per Hour are  $(2,000 + 1,500) / 600 = 5.83$

Overhead cost estimates in Table II.6 are very useful for calculating the real cost of buying new or used equipment compared to operating existing equipment. They demonstrate how enterprise costs can be reduced by spreading the fixed costs over a larger production base. Keeping the tractor an extra year or working it longer each year reduces the per hour cost associated with its use on all enterprises. This is demonstrated by the following example.

**Example:**

In the previous example, suppose that each of the seven tractors was a T150. If each tractor could be operated at 700 hours per year, then:

- one less tractor is needed, and
- the operating cost for each of the six tractors is reduced to L5.00 per hour  
 $(2,000 + 1,500) / 700 = 5.00$

The above fixed costs calculations are also used in making enterprise budgets which systematically estimate variable and fixed costs for each enterprise. An enterprise budget example is found in the appendix.

**Table II.6: Grain Equipment Overhead Calculations**

Equipment	Purchase Price (L)	Salvage Value (L)	Expected Life (Years)	Total Annual Deprec. (L)	Annual Repair Cost (L)	Hectares Covered per Hour (Ha/Hr)	Hours Operated per Year (Hrs/Yr)	Hectares Covered per Year (Ha/Yr)	Repair and Overhead Cost/Hour (L/Hr)
Plow (5 bottom)	1,100	100	10	100	100	0.75	350	262.5	0.57
Harrow	1,400	50	15	90	25	4	160	640	0.72
Leveler	1,400	50	15	90	25	8	85	680	1.35
Field Cultivator	1,875	75	10	180	25	4	160	640	1.28
Grain drill	2,350	100	15	150	100	2	300	600	0.83
T150 hp wheel tractor	16,600	600	8	2,000	1,500	—	600		5.83
T75 hp crawler tractor	13,200	400	8	1,600	1,500	—	600		5.17
MTZ 50 wheel tractor	13,200	400	8	1,600	1,200	—	600		4.67
Chemical car	1,900	150	10	175	1,000	9	140	1,260	8.39
Grain combine	41,000	1,000	8	5,000	1,000	2	200	400	30

**Summary: Establishing Accurate Fixed Cost Allocations**

Assigning fixed costs associated with production enterprises is more difficult than assigning variable costs. The following steps will improve fixed costs calculation and allocation.

- Assign machinery use costs, including repairs, directly to the machine and not to the enterprise and calculate total annual per hour costs for each machine. Direct workshop managers to keep careful records of actual equipment use by each enterprise and allocate fixed costs to each enterprise based on these direct usage records.
- Direct all administrative and management personnel to keep daily records of time spent working with each enterprise and allocate costs in proportion to time spent on each enterprise.
- Assign insurance and property tax costs in proportion to value of assets insured or taxed and allocate costs based on asset use by each enterprise.
- Whenever possible, convert fixed costs into variable costs. Electricity and water costs should be metered to each enterprise and as many salaried worker costs as possible should be converted to hourly costs charged only when the employee is working.

## **SECTION III. GOAL SETTING AND BUSINESS PLANNING**

### **INTRODUCTION**

Survival and growth, sustaining employment and incomes, and creating value for shareholders are the primary goals of LAC directors. But just saying we want to achieve these goals does not tell us, or anyone else, how we intend to do it. Business planning and performance monitoring provide the structure within which survival and growth are possible. Business planning creates a road map for shareholders, management, and workers to follow, and also provides the tools for evaluating performance and progress towards achieving the shared objectives.

Managing the LAC for greater profit and cash flow means:

- Establishing goals to guide management's and workers' decisions
- Anticipating the future by thinking and acting strategically and pro-actively
  - Identifying and analyzing alternative uses of the farm's resources
  - Implementing activities contributing the most to realizing the LAC's goals
- Using all of your business resources to meet those goals

Section III gives you the tools needed for introducing goal setting and planning into your management practice.

## MODULE III.1 GOAL SETTING

### A. Setting Goals

Goal setting is a process not a task. Goals are the building blocks of the business plan. Goals are about the future, and about making decisions on how financial resources, people, land, machinery, and buildings will be used.

Monitoring progress towards reaching goals, and adjusting goals in response to actual experience and performance is a constant and essential activity.

The goals themselves provide the measuring stick for evaluating performance of individual managers, employees, and LAC enterprises; as well as of the director himself.

Goals are:

1. Written
2. Measurable: How much progress toward goal has been made?
3. Specific: "...to increase cash flow by 15%."
4. Timetable: "...to increase cash flow by 15% by December 31."
5. Prioritized: A hierarchy of goals is natural
6. Attainable: They must be supported as realistic by the people they affect.
7. Capable of being modified
8. Certain to make a significant difference if realized

#### Example.

Higher milk production per cow, and improved milk quality would provide additional cash flow that the LAC's management needs for wages. The director, his management team, and the herd manager and her team meet in December to establish production level and quality goals for the next six months.

The goals they agree to might be: By June, each cow will be producing an average of 5 percent more milk, and at least 65 percent of that milk will test out as first sort. Progress toward meeting these goals will be checked monthly between now and June.

### B. Business Planning — The Elements

**Strategic (Organizational) Planning.** The strategic (or master) plan for the whole organization contains the company's broad, long-run objectives. Trying to operate without a strategic plan is like drifting in a boat without oars, and companies that have developed a plan are being propelled forward by the coordinated effort of all who are on board.

Table III.1: The Strategic Planning Process

<u>Step</u>	<u>Building Blocks</u>
1. <u>Establish a Purpose and Direction</u> Elements: Company Vision Statement Customers and Channels Competition Business Climate Constituencies (shareholders, management, employees)	<ul style="list-style-type: none"> <li>• Study the business environment</li> <li>• Hold brainstorming sessions</li> <li>• Collect and analyze data and information</li> <li>• Be open to all ideas and willing to change and adapt</li> </ul>
2. <u>Build a Shared Vision</u> Elements: Long-term Objectives What We Want To Be	<ul style="list-style-type: none"> <li>• Involve people in the process</li> <li>• Build common objectives</li> <li>• Communicate the vision</li> </ul>
3. <u>Develop Shared Plans</u> Elements: Financial Products/Services Identify potential barriers Recommendations Annual Company Plan	<ul style="list-style-type: none"> <li>• Leverage off of strengths</li> <li>• Identify appropriate resources</li> <li>• Develop a spirit of shared ownership of the plans</li> <li>• Write a business plan</li> </ul>
4. <u>Lead and Implement the Action</u> Elements: Business Plan	<ul style="list-style-type: none"> <li>• Facilitate action</li> <li>• Review progress</li> <li>• Give and ask for feedback</li> <li>• Support and develop human resources</li> <li>• Lead by example</li> <li>• Catch and praise people doing the right thing</li> <li>• Recognize and reward contributions</li> </ul>
5. <u>Evaluate the Results</u>	<ul style="list-style-type: none"> <li>• Monitor customer and company reactions</li> <li>• Review the process</li> <li>• Monitor progress toward the goals</li> <li>• Identify areas for improvement</li> <li>• Celebrate successes and <u>have fun</u></li> </ul>

The **Company Vision** is the heart of the strategic plan. It defines the LAC's purpose and its future direction. It is the foundation of the strategic thinking and discussions that will shape the company's future. Which enterprises will the LAC operate; which partners will it work with; which markets will it compete in; and where will it invest in expansion?

The strategic plan projects where management and shareholders want the company to be by a specified date, usually at least 1, 3, and 5 years in the future.

**Tactical (Operational) Planning.** Operational plans contain the details necessary for implementing the master plan, and for monitoring individual enterprises' and manager's performance.

A tactical plan is written annually, based on the goals set each year for the overall company. Each enterprise develops a tactical plan for attaining its annual goals.

Finally, each department or enterprise prepares financial budgets showing what the activities outlined in the operational plans will cost.

**Pre Business Planning — Examples of Issues to Address:**

1. Who should participate in the business planning process?
2. Should technical specialists who are department heads be involved with financial implications and planning for their sections or just handle production issues?
3. Would the need for planning be more apparent if technical specialists were given administrative job titles such as “Dairy Production Director” or “Crop Production Director” rather than Zootechnician or Agronomist?

**MODULE III.2 BUSINESS PLANNING****A. Business Planning — The Process**

Table III.1 lists the process that is absolutely essential to the organization, and to ending up with something that can both be achieved and will significantly strengthen the LAC.

The process is working when:

- The focus on what the customer wants improves;
- The working environment is a more harmonious and there is better team work;
- Reworking to correct mistakes decreases;
- Employee moral improves; and
- Quality is consistently higher.

**B. Business Planning — The Building Blocks**

Successful business planning is not carried out in private. It involves and requires the hard work of the LAC's membership, managers, and employees. To be successful, the plan must be achievable: and to be achievable, everyone involved must believe in it.

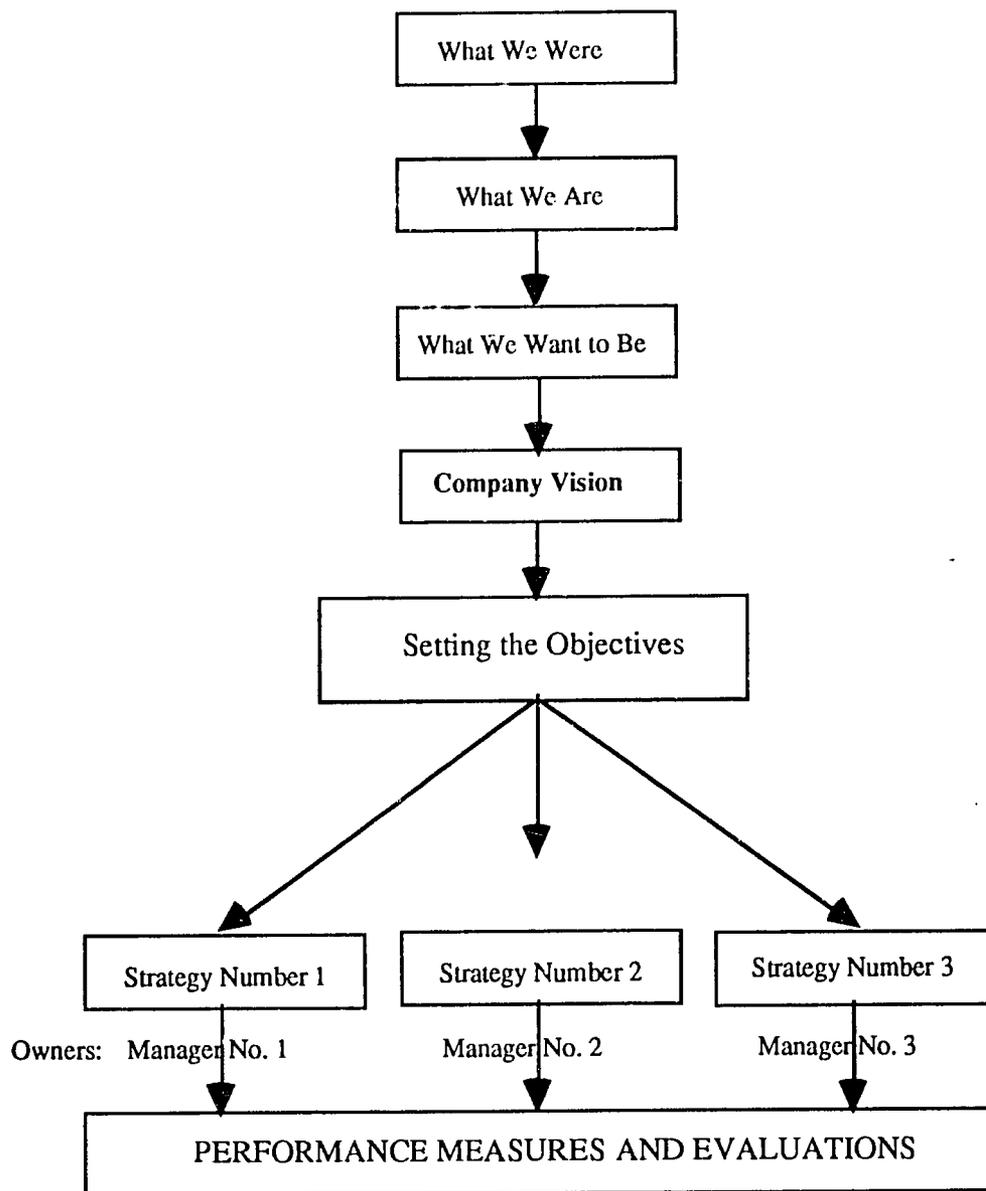
The building blocks of business planning are shown in Figure III.1.

Establishing the company's vision has three steps. Identifying the company's origins helps to understand where the company is now and why. The most critical step, however, is assessing "what the company is now," because that will determine whether or not "what we want to be" is realistic.

Determining "what we are now" means identifying the company's DRIVING FORCE, and the STRENGTHS and WEAKNESSES of its people, land, machinery, and buildings. What do we do particularly well? What should we try to expand? What should we discontinue or downsize? What business are we really in? What business do we want to be in? Could we succeed in the business we might want to be in?

Answering the questions "What were we?" and "What are we now?" provide information important to answering the question "What do we want to be?" Can our actual and potential strengths be used to pursue our objectives and succeed?

Figure III.1: The Building Blocks of Business Planning



**MODULE III.3 BRAINSTORMING**

**Brainstorming** is a business planning tool. The key to successful brainstorming sessions is that all ideas are given equal weight. Nothing is dismissed. Brainstorming sessions should produce answers to specific questions that serve as the agenda for the session.

Tables III.2, III.3, and III.4 outline questions and serve as guides for brainstorming sessions.

Table III.2 “Where did we come from; where are we now” Brainstorming Session

<b>Question: “What are our driving forces and our most important strengths and weaknesses?”</b>			
<b>DRIVING FORCE</b>	<b>MOST IMPORTANT</b>		<b>SUPPORTING EVIDENCE</b>
	<b>STRENGTH</b>	<b>WEAKNESS</b>	
1. Products	a. b.	a. b.	
2. Markets/Customers	a. b.	a. b.	
3. Marketing	a. b.	a. b.	
4. Natural Resources	a. b.	a. b.	
5. Livestock	a. b.	a. b.	
6. Machinery/Equipment	a. b.	a. b.	
7. People — management, employees	a. b.	a. b.	
8. Technology	a. b.	a. b.	
9. Distribution channels	a. b.	a. b.	
10. Shareholders	a. b.	a. b.	
11. Investments/Growth	a. b.	a. b.	

Table III.3: "Getting to where we want to be" Brainstorming Session

<b>Question: "How can we get where we want to be from where we are right now?"</b>	
<b>WHAT WE ARE</b>	<b>WHAT WE WANT TO BE</b>
1. Current marketing strategy	Future marketing strategy
2. Current products and services	Future products and services
3. Present customers	Future customers
4. Present suppliers	Future suppliers
5. Current member services policies	Future member services policies
6. Current domestic/international markets	Future domestic/international markets
7. Current growth of domestic/international markets	Future growth of domestic/international markets
8. Current market position	Future market position
9. Current cost/expense controls	Future cost/expense controls
10. Current rate of profit	Future rate of profit
11. The three most important current driving forces	The three most important future driving forces
12. Current distinctive strengths	Future distinctive strengths
13. Current labor force and wage levels	Future labor force and wage levels

Table III.4: Brainstorming Sessions Guide

<b>Session #1: Where were we in the past?</b>	
<b>Topic Area</b>	<b>Response(s)</b>
Question: What (Who) were our original:	
<ol style="list-style-type: none"> <li>1. Products</li> <li>2. Customers</li> <li>3. Driving forces</li> </ol>	
<b>Session #2: Where are we now?</b>	
<b>Topic Area</b>	<b>Response(s)</b>
Questions:	
<ol style="list-style-type: none"> <li>1. What are our current products?</li> <li>2. Who are our current customers/markets?</li> <li>3. How would our customers describe us?</li> <li>4. How would our competitors describe us?</li> <li>5. How would our suppliers/banker describe us?</li> </ol>	
<b>Session #3: Where do we want to be?</b>	
<b>Topic Area</b>	<b>Response(s)</b>
Questions:	
<ol style="list-style-type: none"> <li>1. What (Who) will be our future</li> <li>2. Products?</li> <li>3. Customers?</li> <li>4. Driving forces?</li> <li>5. What factors influence or limit our goals for the future? <ul style="list-style-type: none"> <li>• Human resources Is/Is not an issue?</li> <li>• Physical assets (land, buildings, equipment technology) Is/Is not an issue?</li> <li>• Management staff/leadership Is/Is not an issue?</li> <li>• Sales staff and sales channels Is/Is not an issue?</li> <li>• Supply sources and channels Is/Is not an issue?</li> <li>• Investment required Is/Is not an issue?</li> </ul> </li> </ol>	
<b>Session #4: How can we get there?</b>	
<b>Topic Area</b>	<b>Response(s)</b>
Questions:	
<ol style="list-style-type: none"> <li>1. What is our present situation?</li> <li>2. What is our desired situation (goal)?</li> <li>3. What is our strategy for realizing the goal <ul style="list-style-type: none"> <li>• Is it realistic?</li> <li>• What is our performance measure?</li> <li>• Who is responsible? Who owns this goal?</li> </ul> </li> </ol>	

**MODULE III.4 WRITING A BUSINESS PLAN****STRATEGIC BUSINESS PLAN GUIDE****A. Components of the Business Plan**

1. Executive Summary: A brief description of
  - a. Your company and its products: past, current, and future plans for development
  - b. Market(s) you serve: currently and in the future
  - c. Competitive advantages: why you are able to serve these markets
  - d. Your company's profit potential: current and in the future
  - e. Your management and personnel team: strengths, capabilities, and experience
  - f. Your funding request — if you are seeking financing
  - g. Repayment plan — if a loan is being requested
2. Your industry, your company, and your product(s) and/or service(s)
3. Market research and analysis: production/sales history and forecast
4. Financial status and forecast: cash flow history and forecast
5. Marketing plan
  - a. Marketing strategy
  - b. Pricing
  - c. Service policies
  - d. Advertising and promotion
  - e. Distribution
6. Tactical (Operational) plans — including a financial management plan

**B. The Ingredients of Successful Planning**

1. Establish the company vision and its goals
2. Establish priorities and identifying conflicts and how to resolve them
3. Identify problems and obstacles
4. Specify the necessary tasks and actions steps
5. Specify how the results of implementing the plan will be measured
6. Establish performance criteria — especially revenue, expense, and cash targets; and deadlines and dates
7. Identify risks involved and alternatives for coping with possible contingencies
8. Identify sources of outside help and resources that need to be secured and controlled
9. Regular review of progress and revision of goals as is required by external environment
10. Establish and implement the action steps for writing the business plan
  - a. Distribute information and assign responsibilities for writing parts of the plan: Who is responsible for each section of the plan? What is the due date for the first draft?
  - b. Create an overall schedule: list all specific tasks, their priorities, who is responsible for them, when they will be started, and when they will be completed
  - c. Create an Action Calendar: place all tasks on the list on a calendar, and examine it for conflicts or lack of realism

**What can go wrong:**

1. Emphasizing the wrong activity — the emphasis must be on planning as a process; planning is not an end in itself, and may not work immediately
2. Making the process too rigid — a lockstep schedule is usually impossible
3. Failing to get real commitment from all affected groups in the company
4. Establishing and trying to implement unclear performance expectations
5. Having poorly defined goals — they must be concrete, specific, measurable, time-phased, and realistic
6. Failing to anticipate obstacles — over-commitment to the plan can lead to ignoring reality and to pressing ahead. Every plan has limitations and internal conflicts over priorities and resources should be expected

The strategic (organizational) business plan is an imperative tool for the successful operation of a business. It is the company's master guiding document and is referred to regularly when planning the growth and development of the company. The goals on which it is based will help determine the policies and actions of the company over a number of years. In addition, it should be referred to in every-day decision making.

The strategic business plan might also be presented to a potential investor or outside lending agency.

Tactical (operational) plans are shorter, more focused plans that support the strategic business plan. Tactical plans are used to outline the goals and activities for the LAC's individual enterprises.

Another use for an operational plan would be if the LAC is researching a possible change in an individual enterprise. For example, if the LAC were considering the possibility of increasing the quality and quantity of milk or crop production. In this case, a one or two-page operational plan would be written that:

- states the enterprise's production and income targets,
- states how the targets will be reached, e.g., improving feed quality, following specific health practices, reducing the labor force, replacing the cooling tank, etc.

Having prepared this operational plan, the LAC is in a position to more quickly produce a formal strategic business plan once it decides to approach a potential investor or lending agency. Such tactical plans serve as the building blocks for the LAC's strategic business plan.

**Operational Planning Example:**

At an annual shareholders' meeting, people are pleased to learn that the LAC had been profitable for a second year in a row. The subject of what to do with profits is raised. At last year's annual meeting it had been easy to convince the shareholders to invest most of the profits in new forage equipment and storage buildings, and to declare only a small dividend.

The discussion is more difficult this year, as the shareholders want most of the profits distributed to them. They are not thinking strategically. The director's leadership challenge is to focus shareholder attention on developing a corporate vision that uses profits to build the LAC's future, to increase the potential for sustainable dividends over the long run.

The director knows that there is an opportunity to increase cash flow and profits by expanding the dairy herd and upgrading the milking parlor and bulk tank. He convenes a series of "where we are and where we should go now" brainstorming sessions based on his information.

The LAC has a capable dairy enterprise manager and a committed staff. High quality feed is being grown in quantities greater than the current livestock population needs. The market for feed has and will continue to offer very low prices. The barn facilities are excellent, and could handle more cows. The milking parlor is old and contaminated. Only one day's milk production can be stored in the unrefrigerated bulk tank. There are other empty livestock buildings on the farm that could house replacement heifers or hogs or beef. Meat prices continue to be low, and payments from the meat processors continue to be very slow. Even though the operation is profitable, the LAC is having trouble providing jobs for all its workers.

Brainstorming sessions recommend increasing the herd size by between 15 and 25%.

You need to transform that recommendation into an operational plan that can be implemented by:

1. Convening meetings with herd manager and chief accountant to begin writing the plan.
2. Determining the cost of a new milking parlor and tank.
3. Identifying who could provide financing, and on what terms, if it is needed? Milk plant? Bank? Shareholders?
4. Determining if the LAC can support additional cash flow burden of paying the loan back
5. Determining how much extra cash flow the new equipment and increased herd will generate
6. Determining if the milk plant will buy the additional milk production and pay for the quality increases
7. Determining what other milk plants might be willing to pay now that we will be producing both more and higher quality milk
8. Determining how many jobs, and in what skill classifications, the expansion will create and if we have the people we need?

Once it is written, you "sell the plan" to any shareholder you see. Each time you have to convince another person that the plan can be achieved, and that it is the best use of this year's profits, you also reassure yourself.

Monitor the plan's implementation constantly, looking for unexpected obstacles and opportunities. Is the actual financial impact close to what was projected? How is the dairy herd manager reacting to handling more cows? How is the new parlor working out? Stay involved and do the checking yourself.

**MODULE III. 5 USING FINANCIAL BUDGETS IN FARM PLANNING**

The financial impacts of various strategic (organizational) and tactical (operational) plans can be estimated before they are made using financial budgeting. Financial projections can be made using enterprise, partial, and cash flow budgeting. Each provides a practical framework for measuring and using the basic revenue and cost concepts discussed in Section II.

**A. Enterprise Budgets**

An enterprise budget includes the revenue, expenses, and net returns for one LAC enterprise. Enterprise budgets allow the manager to understand the impact of changing inputs and technical activities on per unit production costs. The effects of changing input prices on per unit production costs can also be estimated from the enterprise budgets.

The tables in the appendix contain barley enterprise budget illustrations. An enterprise budget is the organization of estimated expenses and revenues for a single economic enterprise such as milk production, beef production, pig production, grain production, sugar beet production, etc. The primary purpose is to estimate production costs and revenues per hectare, per head, per cwt, etc. Constructing an enterprise budget requires a large amount of detailed information as can be seen in Table A.3. But, once constructed it is a source of data for other budgets. Comparing actual costs with budgeted costs provides the basis for identifying production inefficiencies. Enterprise budgets also measure the impact of changing input prices and production activities on total costs.

Appendix Table A.1 is an enterprise analysis worksheet providing cost information used to complete the enterprise budget presented and discussed in Section II. Tables A.2 and A.3 are computer models providing the analytic detail used to prepare the worksheets. By changing the coefficients and activities in Table A.3, the effect of incremental cost changes on total costs can be estimated.

**An enterprise budget has four parts:**

- 1) Estimated revenue based on the projected yield per hectare and price per unit
- 2) A listing and summation of variable (operating) costs
- 3) A listing and summation of fixed costs
- 4) A calculation of revenue above variable costs to project how much of the expected sales revenue will be available for covering fixed costs

**B. Partial Budgeting**

**Partial budgets are used:**

- 1) For calculating the impact on cost and income of making small changes to an enterprise or the annual farm plan
- 2) When considering alternative ways to make better use of existing resources during the “where we want to be in the future” part of the planning process
- 3) To project future costs and revenues from operational alternatives, such as:
  - Investing in a new grain combine compared to hiring a custom operator
  - Selling grain directly or “selling” through your livestock as feed
- 4) To project the decline in fixed cost per unit of production resulting from expanding an enterprise

Partial budgets are generally not used to estimate cost and income changes from changing production technologies.

**A partial budget asks four questions:**

- 1) What new or additional costs will be incurred under each alternative?
- 2) What current costs will be reduced or eliminated under each alternative?
- 3) What new or additional revenue will be received under each alternative?
- 4) What current revenue will be lost or reduced under each alternative?

Table III.5: Partial Budget Example

Farm Name \_\_\_\_\_

Estimated Profit and Loss

**INCOME**

Item	1994	Change	1995-Projected
Milk	235,000	85,000	320,000
Cattle	80,000	(30,000)	50,000
Hides			
Horses			
Meat (beef)			
Pigs sold	180,000	(25,000)	155,000
Meat (pork)			
Barley			
Wheat	216,000	44,000	260,000
Oats			
Sugar Beets			
Flax			
Rape Seed			
Potatoes			
Perennial grass seed			
Transport services			
Tractor services			
<b>Total Income</b>	<b>711,000</b>	<b>74,000</b>	<b>785,000</b>

**EXPENSES**

Item	1994	Change	1995-Projected
Labor	414,000	71,760	485,760
Land Rent	4,800	4,800	9,600
Fertilizers/Chemicals	80,000	15,000	95,000
Seeds	39,000	3,000	42,000
Vet/Medicines	6,000	2,000	8,000
Electricity	28,000	7,000	35,000
Fuel	60,000	(8,000)	52,000
Purchased Feed	12,000	6,000	18,000
Repairs (including spares)	14,000	5,000	19,000
<b>Total Expenses</b>	<b>657,800</b>	<b>106,560</b>	<b>764,360</b>
<b>Total Income</b>	<b>711,000</b>	<b>74,000</b>	<b>785,000</b>
<b>Profit (Loss)</b>	<b>53,200</b>	<b>N/A</b>	<b>20,640</b>

### C. Cash Flow Budgeting

Cash flow projections were introduced above in Section II. Here we discuss the use of cash flow budgeting as a planning tool. Preparing a cash flow budget is the next logical step after preparing the enterprise budgets.

#### Cash flow budgets project:

- 1) Which uses of the LAC's resources generate the largest cash flows on either a monthly or annual basis
- 2) The timing and amounts of cash flows associated with input costs, product sales, and debt or equity credit
- 3) The amount and timing of future borrowing needs, and the ability of the LAC's enterprises to generate enough cash to pay back any loans that are required by the plan

#### The Structure of a Cash Flow Budget:

The cash flow budget contains four potential sources of cash:

- 1) The cash balance at the beginning of the accounting period — each month
- 2) Sales or cash revenues from sales of products and services
- 3) Income from the sale of capital items such as buildings, machinery, or livestock
- 4) New funds from borrowed capital (including new equity capital) or from loans

The cash flow budget contains three general uses of cash:

- 1) Normal operating expenses associated with production or service activities (includes interest, tax, and social insurance payments)
- 2) Actual money spent for buying capital items, such as machinery, land, technology, or livestock
- 3) Repayment of loans and other liabilities including cash payment for shares repurchased from LAC members

The "Amount budgeted" columns of Table II.2 contain a cash flow plan. All major income sources and expense categories are organized according to operational (or production) activities, investment activities, and financial activities, as we saw in Section II.

Expenses for the accounting period are next entered according to operational, investment and financial activities and the total subtracted from the sum of income flows and the starting cash balance.

Comparing the cash flow projections to the actual results each month provides a powerful device for monitoring performance and the progress towards realizing the LAC's planning goals. In the example of Table II.2, "Operating Income," line 12, is ahead of what the plan projected for the first three months. And total "Operating Expenses," line 33, stayed quite close to the projections from January through March. This is excellent performance. At least for the first three months of the year, it seems that the LAC's plan is being achieved.

There is one early warning sign, however. The actual "Ending cash balance", line 53, is running below what was projected by a bit over L3,000. If this trend continues, the LAC might have difficulty paying the scheduled interest and principal on the L20,000 it took out in March. This departure of actual performance from what was projected warns the director that

he must schedule meetings with his economists and accountants, and with his enterprise managers, to see what can be done about raising the LAC's monthly cash balance.

## SECTION IV. GROWING THE LAC THROUGH STRATEGIC DIVERSIFICATION AND MARKETING

— *“Every beginning is hard”*

### INTRODUCTION

To an inexperienced outsider, farming seems like such a simple business. As Figure IV.1 illustrates, farmers use inputs and resources for growing crops on the land which are fed to animals or sold. Milk, meat, raw food products, or inputs into manufacturing (like flax) are produced and sold. Processors and manufacturers take these raw products through several stages. Then they reach the consumer by various paths involving middlemen.

While this business may look simple, profitable farming is extremely difficult and very complex. Having so little power over either the prices he pays for his inputs or the prices he receives for products sold is a common problem of farmers everywhere in the world.

When he buys fertilizer, seed, or feed concentrates, the farmer is told the price. When milk, beets, or meat is sold to the processor, the single farmer acting alone has very little power over the market. He is usually told what he will receive.

Some of Lithuania's LACs are acquiring some power over the market through developing and becoming an important source of inputs for the processors they sell to, and through seeking competing bids for their milk or hogs from several suppliers. Others might join together and form supplier associations that market each member's products together.

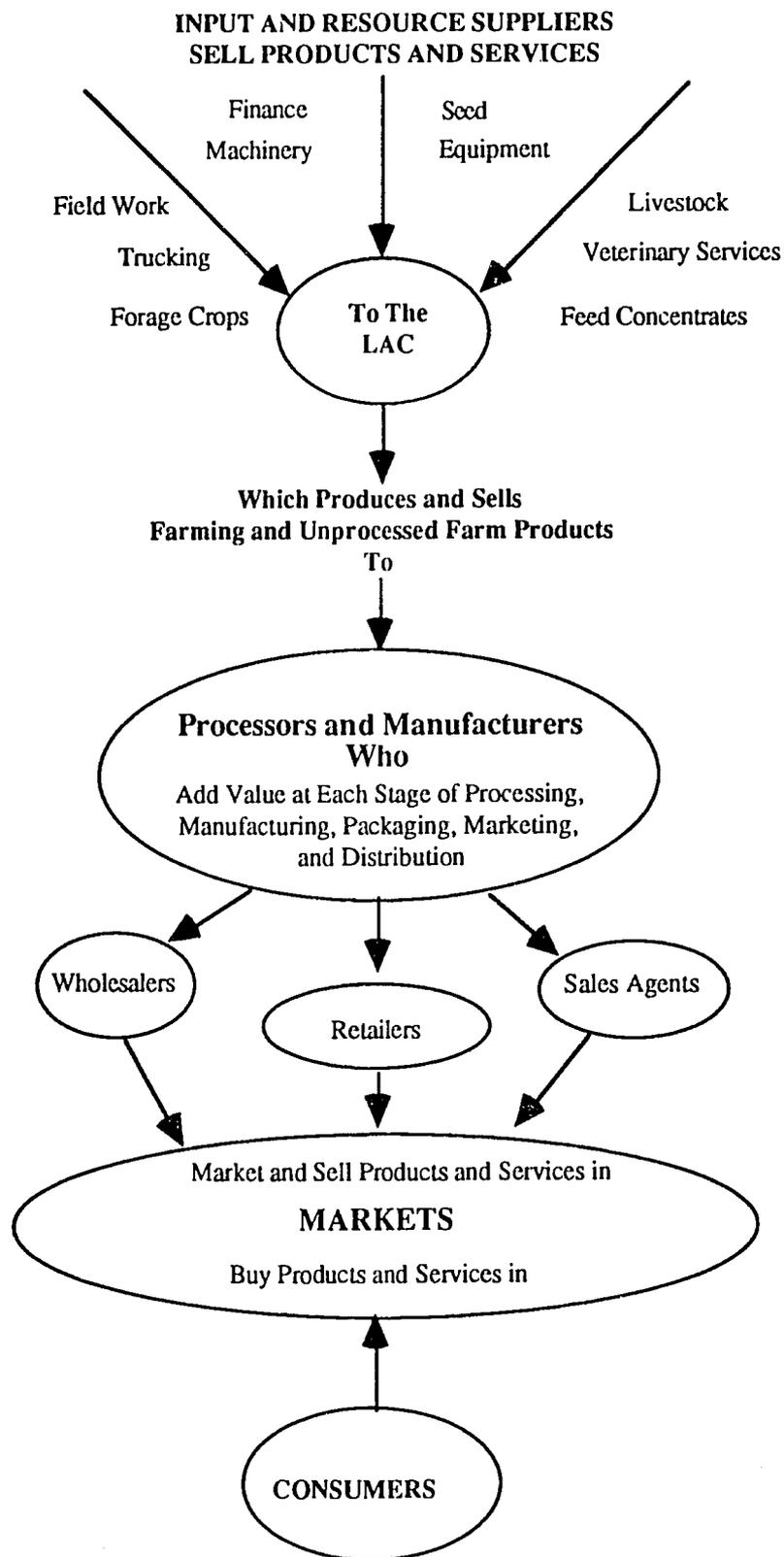
And many LACs are considering adding new enterprises as their strategy for increasing cash flow, profitability, and the number of people their company can support. These LACs can search for opportunities “up stream” by looking into the “Input and Resource Suppliers” half of Figure IV.1. They might add the ability to mix protein feed for higher quality milk production. Perhaps a LAC with lots of machinery and limited land could add a custom field-working enterprise. Still another one might purchase trucks to begin a milk collection and trucking business for private dairy farmers. The addition of a staff veterinarian or artificial inseminator would also be “up stream” opportunities.

LACs are also considering going “down stream” toward the consumer, by adding processing and manufacturing enterprises. At each stage along the way, value is added to the cost input of raw food and farm products through processing or manufacturing. By going down stream, it is possible for the LAC to both capture that value added for itself, while also gaining more power over the prices it receives.

A LAC might find their best situation by using technology they own to turn alfalfa and clover into dry, high-protein feed pellets. Milk processing, cheese making, and even starting a retail farm store might make good sense. A LAC growing large quantities of barley might begin growing hops and establish a brewery. A bakery might be an opportunity for a LAC growing large quantities of rye. Perhaps it could also start a grist mill to make flour.

Figure IV.2 illustrates five basic routes that farm products can take. At the left end is the traditional path from the producer to a processor, and then through a series of middlemen to the consumer. On the right end is a LAC that does everything from producing the raw products, to processing and packaging them into final products, to operating their own retail stores for consumers to shop in. Path (5) is very rare, but it is happening in Lithuania, especially on LACs that have dairies and are also manufacturing specialty cheeses.

Figure IV.1



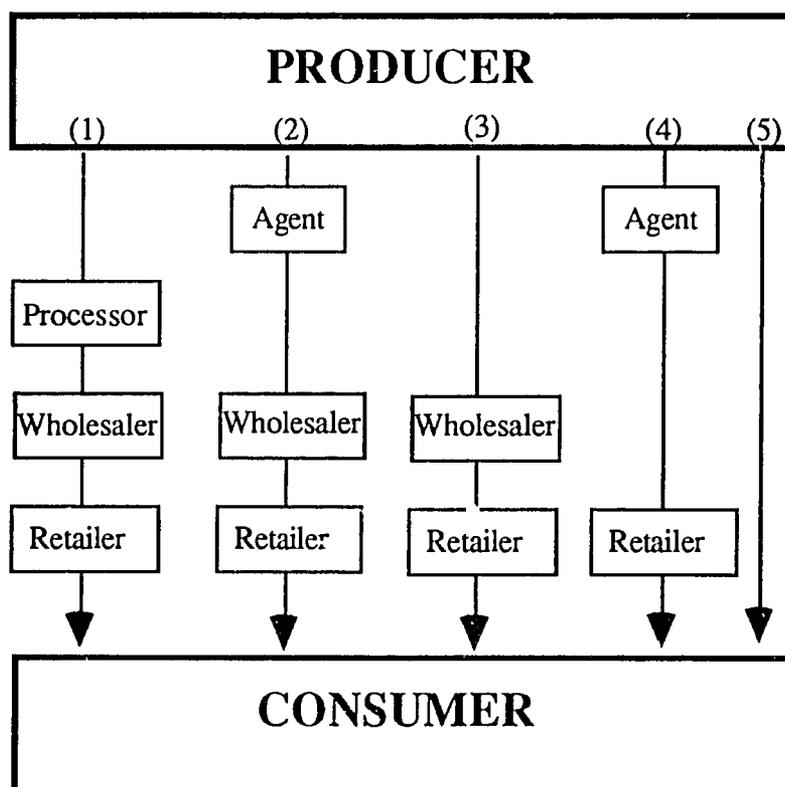
However, while every good business opportunity is based on a good idea, not every good idea good business opportunity. No matter which path to the consumer is chosen, entering any new business means taking on more risk and operating a more complicated and more expensive business.

And, just because you are capturing down steam value added, does not guarantee that you will making larger profits or larger cash flow. If your cost of adding value (production) is too high compared to the new product's market price, you may even lose money on the new venture.

Section III gives you the tools you need to explore and evaluate your business ideas, determine which of them are business opportunities, and then take the steps necessary to launch your new enterprises and market the goods and services they produce.

Figure IV.2

Getting Your Product to the  
Consumer



**MODULE IV.1 WHEN IS A GOOD IDEA A GOOD BUSINESS OPPORTUNITY?****A. Eight Key Questions**

- 1) What do we know about the market for this venture? Will we “spoil” the market when we add our supply to what is already available? Is the market growing or shrinking? How fast?
- 2) Customers: Who/where are they? Do they have the money to buy the new product? Will they buy it?
- 3) Can we sell enough of the product at the price we must charge to pay back our initial investment and generate a positive cash flow?
- 4) Can we meet the test of the market — our cost of production at least as low as the competition’s?
- 5) Does the new venture suit us? Our other enterprises? Our resources? Our people and what they are good at doing? Our geographical location?
- 6) Who is the competition? How will they react?
- 7) Do we have some sort of competitive advantage over the competition, which will let us succeed?
- 8) Is the “window” of opportunity opening or closing? How long do we have to react, plan, raise money, and take advantage of the opportunity?

**B. Finding a Good Idea**

Every opportunity is based on an idea, but not all ideas are opportunities. Table IV.1 provides a road map that you can follow for generating and evaluating new business ideas.

Table IV.1

<b>Exercise: Idea Generating and Evaluating Guide</b>
Step 1: Organize brainstorming sessions at which you challenge everyone to come up with as many new venture ideas as they can that your company could begin. Make every effort to expand the list as much as you can. At this stage, <u>every</u> idea goes on the list.
Step 2: Assign each idea to three people in the room, and ask them to make a list of everything that is wrong with each idea.
Step 3: Assign each idea to three <u>different</u> people in the room, and ask them to make a list of everything that is right about each idea.
Step 4: Bring the group together for the next brainstorming session. Now examine every idea and its “What is Wrong” and What is Right” lists. Then revise the idea list, adding any new ideas that have appeared, and removing rejected ideas.
Step 5: Write down all insights, observations, or conclusions that have emerged about your business ideas.
Step 6: Subject <u>every</u> idea that has not been rejected to the “SWOT Process” and to the “Opportunity Screening Process” outlined below.
Step 7: Write business plans for the three best ideas.

**C. Evaluating the Opportunity**

Once you have decided that a good idea is also a good business opportunity, the next step is to decide whether it is an opportunity that is “right” for your company.

**How well does the opportunity fit your strengths and weaknesses?** Analyzing both opportunities and threats using the **SWOT Process** forces you to recognize both the internal and external ingredients of success in business. The SWOT table appearing in Figure IV.3 is based on four criteria:

Strengths of our LAC

Weaknesses of our LAC

Our opportunities

Threats from other competitors and the marketplace

The first step in the SWOT process is to organize another brainstorming session and make two lists: Our Strengths and Our Weaknesses. To use SWOT well, these lists must be honest and complete. Every strength and weakness must be on the list.

Figure IV.3: Using “SWOT” to Test an Opportunity

	Strengths	Weaknesses
Opportunity	(1) Excellent for us	(2) Presents us with Problems
Threat	(3) Problems	(4) Bad

Once the lists have been made, each opportunity should be exposed to the SWOT test. If the opportunity fits in area (1), it is an excellent fit for your company and deserves to go on to the next screening step presented in Table IV.2. However, if you have been totally objective about your evaluation, very few opportunities fall in the first box.

Most of them will fall in box (2). Why? It is rare that one or more parts of a new business idea do not involve at least one of your weaknesses.

In addition to evaluating opportunities, you must continually be prepared for external forces and events that could weaken your organization and rob value from your shareholders. The bottom two boxes in the SWOT table emphasize the importance of anticipating the future, and blocking external threats to the cash flow and profitability of one of your enterprises.

If a threat appears in an area where your company is strong, perhaps the worst possible outcome is a slightly smaller market and reduced cash flow. Why? Because, by being **proactive** you can prepare and initiate your response before it begins damaging your enterprise. In this case you need to create a strategic response that uses your strengths to defend against the external threat.

However, if the threat comes in an area where your company is weak, and particularly if the weaknesses are severe, you may be forced to begin closing the threatened enterprise. But, as with any new opportunity, you should not take action until you are convinced that closing the enterprise is your only real option. The opportunity screening process outlined in Table IV.2 can also be used here to help you identify possible responses that could return the threatened enterprise toward long-term profitability.

**Example:**

Perhaps the new opportunity involves adding a bakery enterprise to the company. You already grow excellent rye. Before independence there was a state-owned bakery in the village that can be restored without too much expense. Your analysis indicates a strong and growing market in your area for a high quality, specialty bread. The only problem is that the closest mill is 100 kilometers away, and your trucks need repair. Also, no one currently living in the village has any experience in commercial baking.

Here is a good business opportunity, but it must be placed in box (2). Should you reject the opportunity as not real for your company since it has some problems? No, at least not without some additional research. If you are growing very high quality rye, the grist mill might be interested in transporting the grain and flour in return for a percentage of the flour. You might discover a person living nearby who owns a couple of large trucks, and who hopes to begin his own trucking business. Perhaps you can negotiate a trucking contract with him. And, by letting people in the village know you are looking for a baker, a relative might appear who is both experienced and eager to lead the creation and operation of a new bakery.

Do not take any action until you have carefully examined whether or not the problems can be dealt with, and have included the cost of dealing with them in your cash flow projections.

**Screening Opportunities Comprehensively.** Table IV.2 summarizes the final process every idea that appears to offer an opportunity should go through. It assumes that these business ventures are the survivors of the brainstorming sessions and detailed assessments procedures outlined above, and that a detailed market analysis and preliminary business plan have been written.

The few ideas that survive this final screening process receive action recommendations in a final report to be presented to the LAC management committee for its approval.

Table IV.2: The Opportunity Screening Process

Criterion	How Attractive is the Opportunity?	
	More Attractive if:	Less Attractive if:
<b><u>Market Issues</u></b>		
Need for the product	Is clearly identified	Is uncertain
Customers	Receptive to something new and have money	Unreceptive or loyal to other suppliers; have no money
Pay back	Less than one year	Three years or more
Value added or created	High	Low
Market size	Large	Small
Growth Rate	High and growing	Low or declining
Gross profit margins	High (20% or more)	Less than 20%
<b><u>Financial Issues</u></b>		
Break-even achievable in	Less than 2 years	More than 3 years
Positive cash flow achievable in	Less than 2 years	More than 3 years
Potential Profitability	Higher than existing enterprises	Lower than existing enterprises
Importance to your business	High strategic value	Low strategic value
Capital requirements	Low to moderate	Very high
	Funding source identified and financing is available at an affordable rate	Funding not readily available; expensive
<b><u>Competitive Advantage Issues</u></b>		
Fixed and variable costs, compared to the competition:		
Production	Lower	Higher
Distribution	Lower	Higher
Degree of control over:		
Prices	Moderate to strong	Weak
Costs	Moderate to strong	Weak
Input and resource supply channels	Moderate to strong	Weak
Distribution channels	Moderate to strong	Weak
Potential new competitors	Few; weak	Many; strong
Existing competitors	Few; weak	Many; strong; established
<b><u>Your Management Team Issues</u></b>		
The team you need for success	Exists; experienced; has proven performance	Must be created or has no experience in the area
<b><u>Company Resource Constraint Issues</u></b>		
Operating the new enterprise	Requires resources we have in surplus, or that are not currently being used	Requires resources that are already being heavily used by one of our profitable enterprises

## MODULE IV.2 MARKETING PRODUCTS AND SERVICES

The knowledge that the current management of Lithuanian Agricultural Companies has about its markets and customers is limited to those served in the past and to relationships that existed previously.

These managers are also very aware of the huge changes their companies are experiencing. One part of these changes is that their customers' needs are changing too. In the old times customers had no choice of who their suppliers would be, as they were assigned to a particular state enterprise. With independence and the emergence of the LAC, all this has changed.

Previous relationships between suppliers and customers were defined by the government. Now and in the future, new relationships will be defined by the LAC's ability to understand its actual and potential markets, its actual and potential customers' needs, and how to effectively utilize an understanding of marketing to expand its markets and satisfy its customers.

Marketing is involved in every step of the process by which goods and services move from the producer to the consumer. The LACs that survive and prosper in Lithuania's market economy will be those that learn what their customers want and how to meet those needs.

Does your LAC know what its consumers want? Knowing what the consumer wants puts you ahead of the LACs that are just guessing. Plan regular meetings with all your current customers. If you are selling grains, visit the mill and the bakery, and then talk to people buying bread in the bakery. What do they like or dislike about the grain the bakery is putting in their bread?

### A. Basic Marketing Rules

Rule number one: LISTEN, LISTEN, LISTEN!

Rule number two: Never stop searching for new businesses you might enter, and new customers you might market your products and services to. Make a diagram of your products being sure to include all that goes into the product along the way. In the case of grain, for instance, visit with fertilizer producers, seed production facilities, farm implement sellers, all your production people. Look upstream and downstream of the products. Is there any way your products can be improved? Is there a better seed variety available outside of Lithuania? Where can you learn about new and better harvesting techniques that damage the plants less or that bring more of the crop out of the field?

Rule number three: If you do not believe in it, you cannot sell it. Believe in your products by knowing as much as you can about them and how they are made; and by making sure that every customer is reminded over and over that you are and will continue doing your best to improve the product.

### B. Key Components of Marketing

#### 1. PRODUCTS (Includes everything that you are selling.)

Marketing means knowing:

- a) Every characteristic of the products
- b) What else you could be selling
- c) What other products are being sold by LACs similar to yours
- d) How your products compare to those sold by others — quality, consistency, price
- e) Whether your products are wanted by the consumer

- f) Which milk plants are paying a differential price for milk that is refrigerated, or has higher fat content, lower bacteria, or more solids
- g) How can you develop a product that better fills the needs of your consumers

## **2 . PRICE**

- a) Are your products competitively priced?
- b) Does the consumer see that there is value in what they buy from you?
- c) Are they paying you for that value?
- d) If your product is superior is there a way that you can benefit?
- e) Can you charge more to your customers or can you look for a customer willing to pay more for superior products?
- f) Are you paying the lowest price for your inputs so that you can give your customers a better price?
- g) Be creative in searching for ways to lower price
  - Perhaps you would be willing to try a new variety of crop if your supplier would share in the risk
  - Devise and negotiate a contract with your supplier that shares the risk inherent in new products

## **3 . PLACE**

- a) Are you selling your products to the right place (customers)?
- b) Check around — see if other consumers are willing to pay more for the quality of product you produce.
- c) Does it make sense to truck your products to a different location to take advantage of more favorable pricing there?
- d) Does it make sense for you to do your own trucking so that you are not forced to sell only to the local consumer?

## **4 . PROMOTION**

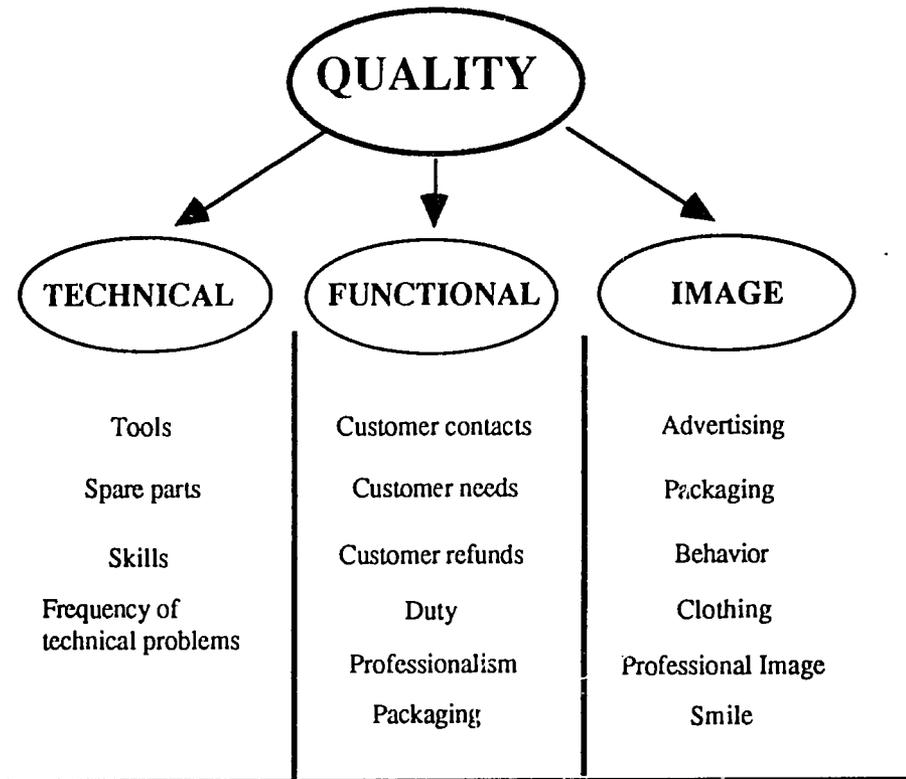
- a) What are you doing so that others know about your products?
- b) If you have decided to sell to a processing plant, have you contacted other processors to see what working relationship might be established with them?
- c) If you have invested the time to make your products the best that they can be, are you being rewarded for that effort?

**C. Quality, Quality, Quality**

Quality plays a critical role in building a strong customer base. Quality is central to building defenses against external threats to your markets, cash flow, and profits. Quality is not measured in your products. A quality-orientation can be created in the conscience of every aspect of your organization.

Figure IV.4 illustrates the powerful influence a quality-orientation can have on your business

Figure IV.4: Quality is Goal Number One!



## SECTION V. OPEN DISCUSSION AND DIALOGUE SESSIONS

Following lunch each of the three days of the program, we will shift from a training/information format to one that involves the entire group in an open discussion and dialogue on what might be termed The Big Issues.

**Session 1 Forum Question:** Can worker-owners be motivated to think and act strategically?

- A. Does getting worker-owners to choose long-term gains over short-term gains benefit the LAC and the worker?
- B. Why does deferring wage increases in favor of sharing higher profits motivate workers?
- C. How can directors educate worker-owners and gain their commitment?

**Session 2 Forum Question:** Will changing the LAC's governing structure from a shareholder to stockholder company make it stronger and more profitable?

- A. How do the organization and operation of the business compare under different structures?
- B. What is the impact of alternative structures on the director's power of initiative?
- C. How do the governance roles and powers of the director and board of directors differ under alternative structures?
- D. The stockholder versus the shareholder — voting trusts, voting rights issues
- E. Other issues from the participants

**Session 3 Forum Question:** Where is the future of the LAC? What external structures and institutions are likely to appear? How will they affect the LAC's future alternatives and options?

- A. Creating an effective lobby to speak for regional interests and concerns — roles of the Ministry of Agriculture and the Association of LACs
- B. Formation of a local association/cooperative to meet the following and other needs:
  - 1. Purchasing inputs at very competitive rates
  - 2. Seeking additional product markets-not just selling to the local milk plant
  - 3. Seeking additional products to market-pellitization of alfalfa/clover and more
  - 4. Sharing information to enable success — seeing each other's data
    - a. Pay scales and benefits
    - b. Typical costs of production
    - c. Income shares by percent of gross sales and other similar income statement numbers without sharing confidential income statements
- C. Creating a national markets reporting system and gaining access to world market and world market prices
- D. Youth farmer organizations
- E. Moving social welfare issues to the government — give the LACs a level playing field to compete with private farmers
- F. Other issues from the participants

**APPENDIX I. ENTERPRISE BUDGETS**  
**EXAMPLE: BARLEY PRODUCTION**

Table A.1: Enterprise Budget Examples: Barley Production

Table A.2: Summary Barley Production Costs

Table A.3: Detailed Barley Production Costs

TABLE A.1 Enterprise Budget Examples: Barley Production

Item	Unit	Example 1			Example 2		
		Price (litas)	Quantity	Amount (litas)	Price (litas)	Quantity	Amount (litas)
<b>Income</b>							
Barley	kg - cwt	17.50	23	402.50	17.5	23	402.5
<b>Operating Costs</b>							
Fertilizer	kg	0.26	295	77.88	0.264	295	77.88
Seed	kg	0.26	230	59.80	0.26	230	59.80
Herbicide	kg	16.00	1.8	28.80	16.00	1.8	28.80
Wage labor	hour	3.17	3.53	11.19	3.17	10.59	33.57
Fuel	liters	0.86	34.5	29.67	0.86	69	59.34
Land rent	/hectare	12.00	1	12.00	12.00	1	12.00
Interest on working capital	/hectare	16.45	1	16.45	20.36	1	20.35
<b>Total Operating Costs</b>	/hectare			235.79			291.74
<b>Fixed Costs</b>							
Tractors	/hectare	14.47	1	14.47	43.41	1	43.41
Combine harvester	/hectare	15.00	1	15.00	45.00	1	45.00
Other implements	/hectare	2.12	1	2.12	6.36	1	6.36
Grain trucks	/hectare	2.19	1	2.19	6.57	1	6.57
Admin. overhead	/hectare	6.50	1	6.50	19.50	1	19.50
<b>Total Fixed Costs</b>	/hectare			40.28			120.84
<b>Total Costs</b>	/hectare			276.07			412.58
<b>Break-even price</b>	kg -cwt			12.00			17.94
<b>Returns Above Expenses</b>	hectare			126.43			(10.08)
	kg -cwt			5.50			(0.44)

TABLE A.2 Summary Barley Production Costs

Activity Description	Hectares treated	Equipment cost			Fertilizer Cost (L)	Chemical Cost (L)	Seed Cost (L)	Labor Cost (L)	Land Cost (L)	Activity Total cost (L)
		OH (L)	Fuel (L)	Total (L)						
Fall plowing	150	1,166	1,720	2,886				438.00		3,324
	150	114		114						114
Spring land harrowing/ leveling	150	194	258	452				41.25		493
	150	48		48						48
Spring land leveling*	150	109	194	303				20.63		323
	150	25		25						25
Spring land harrowing	150	219	387	606				56.25		662
	150	27		27						27
Spring sowing and fertilizer application	150	234	215	449	1,980			150.00		2,579
	150	42		42	9,375		8,970			18,387
Land leveling	150	109	129	238				26.25		265
	150	25		25						25
Herbicide/fertilizer app	150	140	72	212	300	4,320		31.17		4,863
	150			0						0
Combine harvesting	150	2,250	968	3,218			0	825.00		4,043
	0			0						0
Land rent	150								1800	1,800
Transportation from field	150	328	450	777				90.00		867

Total Costs	5,029	4,391	9,421	11,655	4,320	8,970	1,679	1,800	37,844
Total costs per hectare	33.53	29.27	62.80	77.70	28.80	59.80	11.19	12.00	252.29
Cost distribution (% of total)	13.3	11.6	24.9	30.8	11.4	23.7	4.4	4.8	100

Activity Description	Hectares treated	Fuel (liters)	Fert 1 (kgs)	Fert 2 (kgs)	Fert 3 (kgs)	Chemicals (kgs)	Seed (kgs)	Labor (hours)	Labor Cost (L/hr)
Total input use	150	5,106	6,000	37,500	750	270	34,500	529	3.17
Input use per hectare	1	34	40	250	5	1.80	230	3.53	3.17

Total production (cwt)	3450
Yield per hectare (cwt)	23
Price per cwt (Litas)	17.5

Category	Per Cwt (L)	Per Ha. (L)	Total (L)
Total returns	17.50	403	60,375
Total costs	10.97	252	37,844
Net returns	6.53	150	22,531

TABLE A.3 Detailed Barley Production Costs

Activity No.	Activity Description	Type	Equipment Use					Sub total equipment cost per hectare (L)	Seed/ Chemical/Fertilizer Use			Sub total Chem/seed/ fert cost per hectare (L)	Labor use per hectare (hours)	Labor cost per hour (L)	Sub total labor cost per hectare (L)	Hectares treated (L)	Total activity cost (L)
			OH cost per hour (L)	Fuel use per hour (liters)	Fuel cost per litre (L)	Hectares per hour (L)	Fuel cost per hour (L)		Type (L)	Kg per hectare (kg)	Cost per Kg (L)						
1	Fall plowing	DT-150 4 bottom plow	5.83	10	0.86	0.75	8.6	19.24					1.33	2.190	2.920	150	3,324.00
			0.57			0.75		0.76								150	114.00
2	Spring land harrowing/ leveling	DT75 track layer field cultivator (4 metres)	5.17	8	0.86	4	6.88	3.01					0.25	1.100	0.275	150	493.13
			1.28			4		0.32								150	48.00
3	Spring land leveling*	T150 tractor land leveler (8 metres)	5.83	12	0.86	8	10.32	2.02				0.00	0.13	1.100	0.138	150	323.44
			1.35			8		0.17								150	25.31
4	Spring land harrowing	T150 hp tractor drag harrow (4 metres)	5.83	12	0.86	4	10.32	4.04				0.00	0.25	1.500	0.375	150	661.88
			0.72			4		0.18								150	27.00
5	Spring sowing and fertilizer application	MTZ 50 tractor grain drill	4.67	5	0.86	3	4.3	2.99	20% superphosphate	40.00	0.33	13.20	0.33	3.000	1.000	150	20,923.50
			0.83			3		0.28	60% Kcl (potash)	250.00	0.25	62.50				150	41.50
										barley seed	230.00	0.26	59.80				
6	Land leveling	T150 tractor land leveler (8 metres)	5.83	8	0.86	8	6.88	1.59					0.13	1.400	0.175	150	264.56
			1.35			8		0.17								150	25.31
7	Herbicide/fertilizer app	Chemical car 12 metre application band	8.39	5	0.86	9	4.3	1.41	Armina druska	1.8	16	28.80	0.11	1.870	0.208	150	4,862.67
										46% N Karbaminas	5.00	0.40	2.00			150	0.00
8	Combine harvesting	Self propelled (4 metres) charge 1.2/mt	30.00	15	0.86	2	12.9	21.45				0.00	0.50	11.000	5.500	150	4,042.50
9	Land rent															150	1,800.00
10	Truck transport to barn	Type of carrier	OH cost per km (L)	Fuel use (km/liter)	Fuel cost per liter (L)	Total km (per day)	Fuel cost per km (L)	Equipment cost per ha (L)	Harvest per day (ha)	Yield per ha (cwt)	Truck capacity (cwt)	Round trip distance (km)	Labor use per ha (hrs)	Labor cost per hour (L)	Labor cost per ha (L)		
	Avg 20km roundtrip per load	GAZ (53B 4mt) 4 ton truck (40 cwt per load)	0.19	3.3	0.86	184	0.26	5.18	16	23	40	20	0.50	1.200	0.600	150	867.30

## **APPENDIX II. BIRZAI REGION LAC FINANCIAL DATA**

Table A.4: LAC Balance Sheet

Table A.5: Liquidity and Solvency Analysis

Table A.6: Sales, Costs and Profits

Table A.7: Cash Flow Analysis

Table A.8 and Table A.8a: Income and Expense Summary, 1994

Table A.9: Farm Employment 1993, 1994, 1995

Table A.10: Birzai Management Indicators for 1994

TABLE A.4 LAC Balance Sheet

Date January 1, 1995 - July 1, 1995

Description		Source Code	Cost Value 1-Jan-95	Cost Value 1-Jul-95
<b>ASSETS</b>				
<b>Short Term Assets</b>				
<i>Current Inventories</i>				
B				
I.1	Production Inventories	20,21,28	507,763	411,202
I.2	Prepaid expenses	401	1,498	1,852
I.3	Investment in crops and young stock	23,61,62	98,022	268,451
Sub Total - Current Inventories (1)			607,283	682,505
<i>Liquid and Near Liquid Assets</i>				
B				
II.	Accounts receivable	411, 412, 42, 43	34,687	18,716
		44, 471, 472		
		49(sub 1,2,3,4,6)		
III.	Securities and fixed deposit accounts	26	0	0
IV.	Cash on hand and in bank accounts	27	12,121	19,724
SubTotal - Liquid and Near Liquid Assets (2)			46,808	38,440
Total - All Short Term Assets (3) = (1+2)			654,091	720,945
<i>Long Term Assets</i>				
A				
I.	Formation costs	10		
II.	Intangible assets	11 - 182		
III.1	Land	121	0	0
III.2	Buildings	122 - 181	67,290	67,290
III.3	Equip., machinery & other LT assets	123 +129, 13	137,311	112,758
III.4	Works in progress & prepayments	15, 402		
IV.	LT financial assets	16		
V.	Other LT receivables	413, 495, 497		
Total - Long Term Assets (4)			204,601	180,048
Total Assets (5) = (3+4)			858,692	900,993

Date January 1, 1995 - July 1, 1995

Description		Source Code	Cost Value 1-Jan-95	Cost Value 1-Jul-95
<b>LIABILITIES &amp; OWNER EQUITY</b>				
<b>Short Term Liabilities</b>				
D				
II.1	Current Portion of Long Term Bank Loans	464	27,143	37,143
II.2	Financial debts	45		
II.3	Accounts payable to traders	40 (sub. 1,2,3)	32,453	41,974
II.4	Prepayments received on contracts in progress	411, 412		11,700
II.5	Salaries, social insurance & other taxes	42, 431, 44, 48	7,103	11,958
II.6	Other ST liabilities	473, 49 (sub. 1-4,6)	126	11
Total - Short Term Liabilities (6)			66,825	102,786
<i>Long Term Liabilities</i>				
D				
I.1	Financial debts and obligations	46(sub. 1,2,3)		
I.2	Trade debts	404		
I.3	Prepayments received on contracts in progress	413		
I.4	Other LT payments and liabilities	497		
Total - Long Term Liabilities (7)			0	0
Total - All Liabilities (8) = (6+7)			66,825	102,786
<i>Equity Capital and Reserves</i>				
A				
I.1	Subscribed capital	301, 302	585,412	585,412
I.2	Uncalled capital	303		
II.	Share premium account	31		
III.	Revaluation reserve	32		
IV.	Reserves	33	206,455	206,455
V.	Undistributed profit or loss	34		6,340
B	Financing for grants and subsidies	35		
C	Provisions for planned and unplanned obligations	36, 432	0	0
I.	for pensions, taxes and similar obligations	36		
II.	for postponed taxes	432		
Total - Equity Capital and Reserves (9)			791,867	798,207
Total - All Liabilities, Equity Capital and Reserves (10) = (8+9)			858,692	900,993

TABLE A.5 Liquidity and Solvency Analysis

<u>Liquidity Analysis</u>		1-Jan-95	1-Jun-95
Current Ratio	Current Assets/Current Liabilities (3/6)	9.79	7.01
Quick Ratio	Liquid Assets/Current Liabilities (2/6)	0.70	0.37
Working Capital (L)	Current Assets - Current Liabilities (3-6)	587,266	618,159
Quick Capital (L)	Liquid Assets - Current Liabilities (2/6)	(20,017)	(64,346)
Cash and Bank Accounts (L)		12,121	19,724
Accounts Receivable (L)		34,687	18,716
Accounts Payable (L)		39,556	65,632
Short Term Bank Loans (L)		27,143	37,143
Other Short Term Liabilities		126	11
Long Term Loans and Debts (L)		0	0
Debt Structure	Current Liabilities/Total Liabilities (6/8)	1.00	1.00
<u>Solvency Analysis</u>			
Debt/Asset Ratio	Total Liabilities/Total Assets (8/5)	0.078	0.114
Equity/Asset Ratio	Total Equity/Total Assets (9/5)	0.922	0.886
Debt/Equity Ratio	Total Liabilities/Total Equity (8/9)	0.084	0.129

TABLE A.6 Sales, Costs and Profits

Income from production and services	128,782
Cost of sales & labor	103,484
Gross profit (loss)	25,298
Operations expenses	15,743
Net profit (loss)	9,555
<b>Other activities</b>	
Income	12,285
Expenses	10,178
Profit (loss)	2,107
<b>Financial and investment activities</b>	
Income	0
Expenses	5,322
Profit (loss)	(5,322)
<b>Profit (loss) from ordinary activities</b>	<b>6,340</b>
<b>Extraordinary activities</b>	
Profit	0
Loss	0
<b>Total profits before taxes (loss)</b>	<b>6,340</b>
Tax on profits	
<b>Net profit for the period</b>	<b>6,340</b>

TABLE A.7 Cash Flow Analysis

Item	Net Cash Flow	Assets	Liabilities & Equity
<b>Cash Flow From Operations</b>			
Net Profit (loss)	6,340		
Change in accounts receivable (BII)		(15,971)	
Change in current inventories (BI.1 -- BI.3)*		75,222	
Change in accounts payable (DII.3--DII.5)			26,076
Depreciation taken			0
<b>Net change from operations (1)</b>	<b>(26,835)</b>		
<b>Cash Flow From Long Term Investment Activities</b>			
Change in long term assets (AI -- AV)**		(24,553)	
Change in marketable securities (BIII)		0	
<b>Net change from investments (2)</b>	<b>24,553</b>		
<b>Change From Financial Activities</b>			
Change in ST loans (DII.1--DII.2)			10,000
Change in LT loans (DI.1)			0
Change in other debts (DI.4, DII.6)			(115)
Change in equity capital and reserves(AI.1 -- AV)***			0
Change in obligated reserves (B, CI, CII)			0
<b>Net change from financial activities (3)</b>	<b>9,885</b>		
<b>Cash Flow From All Sources (1+2+3)</b>	<b>7,503</b>		

\* Change in production inventories - accumulated depreciation in unsold inputs

\*\*Change in long term assets + depreciation taken on cost of sales

\*\*\* Change in equity capital and reserves - profit (loss)

TABLE A.8 Income and Expense Summary, 1994

Profit Centers	Production Base (ha/animal)	Amount Produced (cwt)	Amount Sold (cwt)	Total Prod Cost (L)	Cost of Sales (L)	Total Sales (L)	Net Profit (L)	P/TC (%)	Yield/unit (Prod) (cwt)	Yield/unit (Sales) (cwt)	Cost/ cwt (prod) (L)	Cost/ cwt (sold) (L)	Price/ cwt (sell) (L)	Amt sold/ amt prod. (%)	Sales Cost Dist (%)	Sales Dist (%)
<b>Milk and Cattle Prod</b>																
Milk	474	17,884	15,045	427,821	359,900	528,363	168,463	46.81	37.73	31.74	23.92	23.92	35.12	84.13	25.69	29.85
Cattle	1086	2,094	1,640	1,012,96	287,198	341,556	54,708	18.93			287.15	175.12	208.27	78.32	20.50	19.30
Hides							0									
Horses				38,572	45,246	50,977	5,731	12.67							3.23	2.88
Meat (beef)							0									
<b>Sub total</b>				<b>1,067,689</b>	<b>692,344</b>	<b>920,896</b>	<b>228,552</b>	<b>33.01</b>							<b>49.41</b>	<b>52.03</b>
<b>Pig Production</b>																
Pig sales	1,599	1,249	851	434,069	291,920	326,006	34,086				347.53	343.03	383.09	68.13	20.83	18.42
Meat (pork)							0									
<b>Sub total</b>				<b>434,069</b>	<b>291,920</b>	<b>326,006</b>	<b>34,086</b>	<b>11.68</b>							<b>20.83</b>	<b>18.42</b>
<b>Small Grains</b>																
Barley	158	6,075	0	82,343	0	0	0		38.45		13.55					
Wheat	415	12,001	1,495	192,016	33,418	65,975	32,557	97.42	28.92		16.00	22.35	44.13	12.46	2.39	3.73
Oats	70	1,481	0	36,481	0	0	0		21.16		24.63					
<b>Sub total</b>	<b>643</b>	<b>19,557</b>	<b>1,495</b>	<b>310,840</b>	<b>33,418</b>	<b>65,975</b>	<b>32,557</b>	<b>97.42</b>			<b>54.19</b>				<b>2.39</b>	<b>3.73</b>
<b>Field Crops</b>																
Sugar beets	65	11,163	11,163	78,241	78,241	104,888	26,647	34.06	171.74	171.74	7.01	7.01	9.40	100.00	5.58	5.93
Perennial grass seed			52	0	4,663	4,965	302	6.48			89.67	95.48			0.33	0.28
<b>Sub total</b>	<b>65</b>	<b>11,163</b>	<b>11,215</b>	<b>78,241</b>	<b>82,904</b>	<b>109,853</b>	<b>26,949</b>	<b>40.53</b>			<b>7.01</b>	<b>96.68</b>	<b>104.88</b>	<b>100.00</b>	<b>5.92</b>	<b>6.21</b>
<b>Service Activities</b>																
Transport services					176,290	210,347	34,057	19.32							12.58	11.88
Tractor services							0								0.00	0.00
<b>Sub total</b>					<b>176,290</b>	<b>210,347</b>	<b>34,057</b>	<b>19.32</b>							<b>12.58</b>	<b>11.88</b>
<b>Processing &amp; Other</b>																
Auxiliary production					71,825	81,815	9,990	13.91							5.13	4.62
Other animal production					48,685	49,896	1,211	2.49							3.47	2.82
Other grain production					3,730	5,224	1,494	40.05							0.27	0.30
<b>Sub total</b>					<b>124,240</b>	<b>136,935</b>	<b>12,695</b>	<b>10.22</b>							<b>8.87</b>	<b>7.74</b>
<b>Total</b>				<b>2,288,532</b>	<b>1,401,116</b>	<b>1,770,012</b>	<b>368,896</b>	<b>26.33</b>							<b>100</b>	<b>100</b>

1/2

TABLE A.8a Income and Expense Summary, 1994

Profit Centers	Production Base	Amount Produced	Amount Sold	Total Prod Cost	Cost of Sales	Total Sales	Net Profit	P/TC	Yield/ha (prod)	Cost/cwt (prod)	Cost/cwt (sold)	Price/cwt (sell)	Amt sold/amt prod.	Sales Cost Dist	Sales Dist
	(ha/animal)	(cwt)	(cwt)	(L)	(L)	(L)	(L)	(%)	(cwt)	(L)	(L)	(L)	(%)	(%)	(%)
<b>Feed Crops</b>															
Sugar beet leaf silage	65	4,550	0	4,900					70.00	1.08					
Field beets	2	700	0	3,500					350.00	5.00					
Hay	330	13,300	0	66,500					40.30	5.00					
Corn silage		4,550	0	2,485						0.55					
Grass silage		14,030	0	6,900						0.49					
Pasture grass	822	61,174	0	90,221					74.42	1.47					
Green chop		68,560	0	102,840						1.50					
Annual grasses	25	3,750	0	1,500					150.00	0.40					
Straw	698	21,400	0	27,387					30.66	1.28					
Perennial grasses		49,530	0	72,812						1.47					
Pea mixture	25	479	0	8,476					19.16	17.70					
Vetch mixture	30	557	0	10,172					18.57	18.26					
<i>Sub total</i>	1930	242,580	0	397,693										0.00	0.00



TABLE A.10 Biržai Management Indicators for 1994

Management Indicator	Industry Avg	LAC XYZ
Total Sales (L)	397,387	435,386
Total Cost of Sales (L)	436,742	450,378
Profit (loss) (L)	(39,355)	(14,992)
Number of Workers	76	118
Annual Payroll (L)	105,087	153,281
Avg. Wages per Worker (L)	1,387	1,299
Avg. Sales per Worker (L)	5,646	3,690
Total Cash (L)	17,362	7,625
All Short Term Loans (L)	40,179	49,304
Accounts Receivable (L)	46,207	57,842
Accounts Payable (L)	42,798	61,931
Quick Capital (L)*	(11,979)	(45,533)
Working Capital (L)**	351,043	380,379
Ratios		
Liquid Assets to Current Liabilities (Quick Ratio)	0.86	0.59
Current Assets to Current Liabilities (Current Ratio)	5.23	4.42
Accounts Receivable to Sales (%)	11.63	13.29
Accounts Payable to Cost of Sales (%)	9.80	13.75
Total Payroll to Cost of Sales (%)	24.06	34.03

\* Liquid assets minus current liabilities

\*\* All current assets minus current liabilities

## **APPENDIX III. LAC TEMPLATE FORMS**

Table A.11: Income and Expense Statement Template

Table A.12: Income/Expense Farm Employment Template





# GEONOMICS

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Since its creation in 1987, the Geonomics Institute has evolved from a small group of dedicated economists and scholars into a dynamic international organization of business executives, lawyers, bankers, policymakers, and regional specialists. Geonomics' mission remains unchanged: the building and strengthening of democracy in the former Soviet Union (FSU) through the development of the private sector.

A private, nonpartisan, nonprofit corporation, the Institute's programs and services are designed to directly promote and serve the needs of expanding markets, businesses, and foreign investments in the FSU through:

## Goals

- Promote economic transformation in the former Soviet Union (FSU), and expand commercial ties between the FSU and the West.
- Establish global networks of business leaders in industry, agribusiness, commerce, and trade who understand the mutual benefits of expanding trade and commercial ties between the FSU and the West.
- Build collaborative partnerships between public- and private-sector leaders in the FSU and the U.S. through face-to-face meetings.

## Programs

- Business development forums that supply companies contacts and information critical to doing business in the FSU.
- Trade missions and reverse trade missions that provide direct access to business opportunities.
- Regional economic development projects to improve the local business climate.
- Publications, feasibility studies, and business-oriented research.
- Industry-specific intensive training programs and direct technical assistance.
- Privatization and small-business development services.
- National policy and legal infrastructure development projects in the FSU.