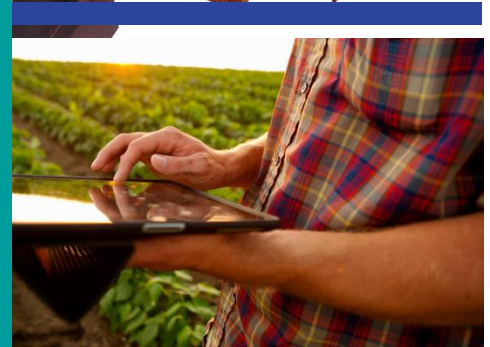


DOLLAR\$ AND SENSE

Measuring the Tangible
Impacts of Beneficial Business
Practices on Canadian Farms

July 2015



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Note to the Reader:

It is important to note that while it is impossible to isolate farm business management activities from all other factors (weather, management style, commodity prices, exchange rates, etc.), this study reveals that regardless of farm type, those who engage in management activities tend to have stronger financials than those who do not.

It is also important to note that farm business management activities were analyzed using a combination of both attitudes and behaviour in order to best determine a causal relationship.

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EXECUTIVE SUMMARY

The Agri-Food Management Institute and Farm Management Canada provide critical support for increasing the awareness and adoption of beneficial farm business management practices in Canada. Farm business management activities have been championed as key to farm financial health and activities that can facilitate growth in farm businesses and the agricultural sector as a whole.

In 2011, AMI conducted a study titled “Baseline Study of Farm Business Management Planning,” which established benchmark levels of farm business management activities, behaviours and attitudes in Ontario. This study analyzed demographic, behavioural and attitudinal differences in producers who participated in business management activities and those who did not.

In 2012, FMC published a report titled “2020: Planning for the Business Management Needs of Canadian Farmers,” which provides insight into domestic and international best practices in farm management.

As an extension to this work, AMI and FMC want to determine whether these business management activities ‘pay’.

The purpose of this project was to establish the degree to which farm business management practices are direct drivers of farm financial success.

The research was completed in three phases:

Phase 1: Qualitative Exploratory Phase

Phase 2: Pre-test of Quantitative Survey Instrument with Farmers







Phase 3: Quantitative Survey

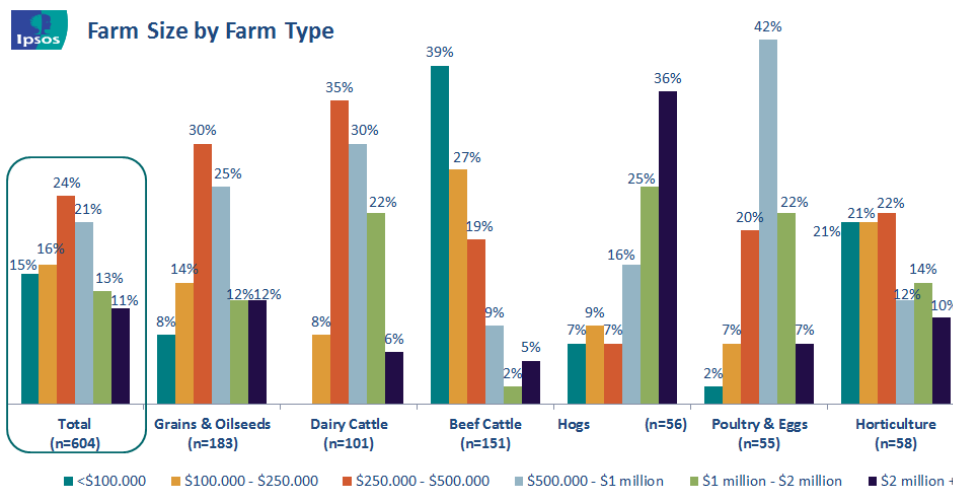
Key results of this research include:

1. Statistically reliable and representative sample frame
 - The sample source for this study was Ipsos’ database of over 120,000 Canadian farmers. This database is recognized as the largest agricultural database in Canada and is routinely used by government (federal and provincial), financial institutions, crop/chemical/animal health companies and other industry stakeholders.
 - A sample size of n=604 has a maximum margin of error of +/- 3.99% at the 95% confidence interval.
 - A disproportionate sampling strategy was implemented to increase sample sizes among larger farms, farms in provinces with lower populations of farmers and lower incidence farm types.
2. High quality and unbiased data collection process
3. Comprehensive stakeholder engagement in development of a dependent variable
 - Development of a Financial Success Score that succeeds as a dependent variable in driver analysis, but does not provide an outcome strongly biased toward any single farm type or farm size
4. Driver analysis that identifies a few key drivers of farm financial success as well as several other drivers
5. Proof that these drivers are related with desirable financial outcomes

Research Result 1: Statistically reliable and representative sample frame

The sample source is perhaps the best in Canada for conducting national studies with farmers. The sample frame is designed in a way that allows for meaningful comparisons against most relevant subgroups.

Farm Type	Grain & Oilseed	Beef Cattle	Hogs	Poultry & Eggs	Dairy Cattle	Horticulture	Total
							
Province							
Atlantic	6	28	5	2	20	26	87
QC	18	23	28	3	33	10	115
ON	30	20	19	41	25	8	143
MB	42	11	4	4	2	1	64
SK	66	16	-	-	1	-	83
AB	19	30	-	-	8	3	60
BC	2	23	-	5	12	10	52
Total	183	151	56	55	101	58	604



SC4. Would you be willing to tell us your total gross farm sales for 2014? Please be as precise as possible and include any program payments in your gross farm sales estimate. Base: All Respondents

Research Result 2: High Quality and Unbiased Data Collection Process

The data collection process included many controls that contribute to reliability of results. Although the data collection process does not meet the “gold standard” of sitting down with a respondent and reviewing hard copies of financials together, we believe this study utilized the only realistic method of collecting data from over 600 farms in a reliable,

efficient manner. Feedback during pre-test interviews and analysis of the farm financial data by the project team suggests relatively few respondents had a poor or unrealistic view of their farm financials.

- The survey instrument was developed based on the combined experience of the project team (highly experienced in market research methods and knowledgeable in business management practices, financial analysis and the agriculture sector).
- The survey subject matter, including potential barriers to success, were discussed during the Phase 1 stakeholder interviews. Feedback from these interviews was used to finalize the survey instrument.
- Pre-test interviews with farmers concluded that survey questions were understood by respondents. The pre-test also revealed that farmers were relatively “open” to discussing their farm financials and that many had reviewed them prior to conducting the study (at the request of the recruiter). Further, fieldwork was scheduled to coincide with the 2014 tax season, meaning that many would have very recently reviewed financials with their accountant.
- The quantitative survey was fielded using Ipsos Reid’s state of the art Computer Assisted Telephone Interviewing (CATI) Centres located in Canada. The survey was fielded in both official languages and adhered to the Marketing Research and Intelligence Association (MRIA) quality control standards. Optionally, respondents had the choice to complete the survey online.
- All farm financial data were personally reviewed by the research team and farms with questionable results were eliminated from analysis.

Research Result 3: Comprehensive Stakeholder Engagement in Development of Dependent Variable

The Financial Success Score is validated by several aspects of this research:

- **We see a significant gap in financial performance of those that receive a high score and those who receive a low score across all farm types.**
 - **We see an even distribution of farms across the range of scores (0-100) that is consistent across all farm types¹.**
 - **We see good representation from all farm types and sizes among the Top 25% Financial Performance Segment.**
 - **We are able to establish a link between adoption of business management activities and the Financial Success Score.**
- The Phase 1 in-depth interviews revealed defining farm financial success is contentious, even among financial professionals. Nearly all institutions have their own set of norms and unique set of ratios they prefer.
 - These interviews, along with an extensive evaluation of the dataset, resulted in the project team deciding on a score that combined Asset Turnover, Gross Margin Ratio and Return on Assets. Initial “draft” versions of the Financial Success Score included debt ratios, however, in the FFS calculation farms with zero debt received extremely high scores on these measures and thus dramatically reduced the degree of variability in the dataset.
 - Feedback from the project team and key industry stakeholders was obtained throughout this process.

¹ Poultry and Eggs demonstrated a significantly higher proportion of farms receiving a higher Financial Success Score

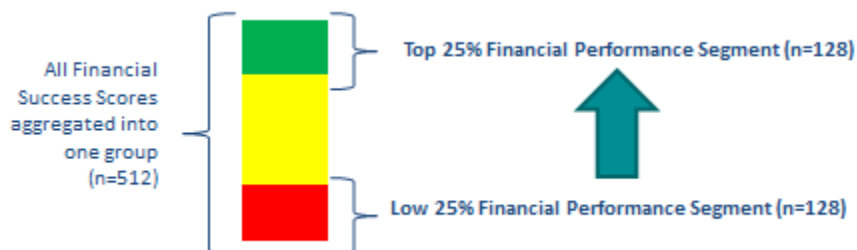
Research Result 4: Statistically Reliable Driver Analysis Demonstrates that Management Activities Pay

This research establishes that: i) a commitment to training and personal development, ii) utilizing accurate and detailed reports from financial systems for decision-making and iii) utilizing business advisors are key drivers of farm financial success. Analysis of adoption rates for each of these activities is included in this report and demonstrates that farms within the Top 25% Financial Performance Segment are more likely to have adopted each of these activities.

The research identifies seven business management activities that, when adopted, are drivers of farm financial success. That is to say that these activities are more likely to be present on financially successful farms and/or more likely to be absent on less financially successful farms.

1. **Propensity to Continually Learn**
2. **Business Decisions Made with Accurate Financial Data**
3. **Use of Professional Business Advisors**
4. **Use of Formal Business Plan**
5. **Cost of Production Monitoring and Use**
6. **Risk Assessment and Management**
7. **Use of Financial Plan with Budget Objectives**

It is these activities that need to be focused on by the Low Performers to 'push' or 'drive' them to the top.



Due to the unbiased design of the Farm Financial Success Score, these relationships are present across all farm types and commodity groups.

While it is impossible to isolate farm business management activities from all other factors (weather, management style, commodity prices, etc.), it is evident that the Top 25% and Low 25% Performance Segments (based on Financial Success Score) have dramatically different financial situations.

Research Result 5: Proof that the Drivers are related with Desirable Financial Outcomes.

Because the driver analysis was designed in a way to identify the drivers of converting farms from the Low 25% Performance Segment into the Top 25%, it can be said that the business management activities identified as key drivers are playing a role in driving financial success among the most successful Canadian farmers.

		Value	Industry Rating	Percent Change
Asset Turnover	Top 25%	20.0%	Moderate	100% ↑
	Low 25%	9.7%	Vulnerable	
Gross Margin Ratio	Top 25%	50.0%	Moderate	155% ↑
	Low 25%	19.6%	Vulnerable	
Return on Assets	Top 25%	10.0%	Strong	525% ↑
	Low 25%	1.6%	Vulnerable	

The research was successful in identifying the linkage between specific business management activities and financial outcomes using a nationally representative, statistically reliable sample.

Overall, management matters. The results of this research clearly show that adoption of business management activities is related to farm financial success. In comparing the top and bottom quartiles of Canadian farms, there are significant differences in financial performance.

The top producers financially out-perform by a wide margin:

- 525% increase in ROA
- 155% increase in Gross Margin ratio
- 100% increase in ROE
- 100% increase in Asset Turnover

Top Habits of Top Performers

1. A commitment to learning

- Farms in the bottom quartile are 3 times more likely to not seek out new information, training or learning opportunities.

2. Using detailed financial information for decision-making

- Farms in the bottom quartile are 3 times more likely to have financial records that are months behind and not used on a regular basis for decision making.
- Farms in the bottom quartile are almost 3 times more likely not to monitor cost of production and use it for benchmarking and management decisions.

3. Using business advisors

- Farms in the top quartile are 30% more likely to work regularly with a trusted farm business advisor, or team of advisors.

4. Striving to meet Long Term Vision

- Farms in the top quartile are almost 50% more likely to have a formal written business plan that is reviewed and updated annually.

1. INTRODUCTION

The Agri-Food Management Institute and Farm Management Canada provide critical support for increasing the awareness and adoption of beneficial farm business management practices in Canada. Farm business management activities have been championed as key to farm financial health and activities that can facilitate growth in farm businesses and the agricultural sector as a whole.

In 2011, AMI conducted a study titled “Baseline Study of Farm Business Management Planning,” which established benchmark levels of farm business management activities, behaviours and attitudes in Ontario. This study analyzed demographic, behavioural and attitudinal differences in producers who participated in business management activities and those who did not.

In 2012, FMC published a report titled “2020: Planning for the Business Management Needs of Canadian Farmers,” which provides insight into domestic and international best practices in farm management.

As an extension to this work, AMI and FMC want to determine whether these business management activities ‘pay’

1.1 PURPOSE & OBJECTIVES

The purpose of this project was to establish the degree to which farm business management practices are direct drivers of farm financial success.

The specific objectives of the study are to:

1. Identify the business management activities most widely used and promoted throughout the sector
2. Identify the farm financial measures that most clearly show farm financial health
3. Determine the degree to which a relationship between management activities and financial success exists
4. Assess the difference in farm financial success between farmers that implement farm business management practices and those that do not

1.2 METHODOLOGY

It is critical for this research to overcome key challenges of existing research on this topic: small sample sizes, limited or unreliable data sources, too specific to a single region or commodity, too few business practice measures and non-quantifiable approach/findings. Our approach was designed to overcome these challenges.

The research was completed in three phases:

- Phase 1: Qualitative Exploratory Phase
- Phase 2: Pre-test of Quantitative Survey Instrument with Farmers
- Phase 3: Quantitative Survey

Phase 1: Qualitative Exploratory Phase

The purpose of Phase 1 was to determine which financial measures portray financial success and should be gathered as well as the feasibility of gathering these metrics through quantitative online and telephone interviews. The focus was to identify financial inputs/measures for collection during the quantitative phase in order to ensure “causality” between management activities and financial outcomes are accurate and defensible.

In order to fulfill the objectives for this phase, 12 in-depth interviews were completed, each lasting between 30 and 60 minutes. These interviews were completed with:

- Farm business representatives at national banks and loan firms
- Farm business representatives at accounting firms
- Government program administrators
- Farmers
- Farm advisors

The combined experience of the individuals in Phase 1 was leveraged to identify which financial measures were most meaningful as well as which ones could realistically be collected from farmers during Phase 3 telephone interviews.

The interviews focused on which financial measures each interviewee uses as a guide for the financial success of a client and which measures they felt farmers would be comfortable relaying with some accuracy.

In summary, we heard the following during our in-depth interviews:

- There was a high degree of interest in the study, particularly in the area of understanding the cause and effect relationship between business management activities and financial outcomes.
- Nearly all respondents have their own approach to defining financial success in the agricultural sector. While there are similarities, each organization has developed customized benchmarks and measures.
- There is broad agreement that there are many barriers to gathering fully detailed and reliable financial measures:
 - Farm finances are complex and not top-of-mind
 - Farmers may be uncomfortable providing detailed and complex information over the phone/online
 - There is no current database, other than Revenue Canada tax information, that could act as a reliable source of database comparison/merging.
 - There is also agreement that farm business management activities must also be collected as a combination of both attitudes and behaviour in order to best determine a causal relationship.

During our interviews, stakeholders were asked to identify the business management activities used by successful farm businesses; their answers were relatively consistent:

- Conduct regular business/outlook meetings with partners/staff
 - Know how to run a meeting, summarize meetings
- Have a clear vision/mission – both long-term (10 years) and short-term (2-3 years) that they can articulate clearly
 - Have shared this vision with partners/staff
 - A couple of interviewees suggested that this does not have to be written down, as long as they know if they are meeting goals to accomplish mission
- Monitor financial information and results regularly and employ them in making operating decisions and implementing management activities

- Seek the advice of professionals for financial and business decisions, do not “go it alone” or rely exclusively on the opinions of friends and family
- Planners do more than just financials – Business Contingency Plan, Succession Plan, Environmental Farm Plan
 - *“I think the Business Contingency Plan is BIG – only REAL planners are going to do this (Plan for what happens if they ‘get hit by a bus’)”(Respondent from Phase 1)*
- Top financial performers move beyond agronomic productivity and understand their business’ efficiency from a financial perspective

The results of these discussions and the experience of the project team were instrumental in guiding the development of the quantitative survey instrument.

Phase 2: Quantitative Pre-test with Farmers

Feedback from Phase 1 was summarized and Ipsos developed a draft of the quantitative survey for pre-testing with farmers who would ultimately qualify for Phase 3. The purpose of the pre-test interviews was to ensure all questions were understood, particularly the business management questions and to test whether farmers would be comfortable providing farm financial data.







Each interview was approximately 30 minutes in length and completed via telephone by Colin Siren or Kate Stiefelmeyer of Ipsos. In total, 15 interviews were conducted with farmers across the country and of all farm types.

Throughout the interviews it was clear that respondents understood the questions and were comfortable providing Ipsos with their financial data.

Phase 3: Quantitative Survey with Ontario Farmers

The third phase of this study included a nationally-representative survey with Canadian farmers. The sample frame included minimum quotas based on main farm type and region. In total 604 farmers completed the survey.

Survey Sample Frame

Farm Type	Grain & Oilseed	Beef Cattle	Hogs	Poultry & Eggs	Dairy Cattle	Horticulture	Total
							
Province							
Atlantic	6	28	5	2	20	26	87
QC	18	23	28	3	33	10	115
ON	30	20	19	41	25	8	143
MB	42	11	4	4	2	1	64
SK	66	16	-	-	1	-	83
AB	19	30	-	-	8	3	60
BC	2	23	-	5	12	10	52
Total	183	151	56	55	101	58	604

*Maximum margin of error at the 95% confidence interval for a sample of n=604 is +/- 3.99%.

Data Collection

The Survey Sample was derived from Ipsos' producer database of over 120,000 Canadian farms. The survey length was approximately 20 minutes and respondent qualifications were as follows:

- Respondent was owner/manager for their farm and have some involvement in key farm management decisions
- Farms with gross farm sales >\$10,000 in previous calendar year (Farms with \$10,000 - \$50,000 in gross farm sales were limited in the sample).
- Respondent was 18+ years of age

Respondents were able to complete the survey either online, through email permission provided through enrolment in the Ipsos producer database, or through a telephone interview utilizing Ipsos-Reid's in-house Computer-Assisted Telephone Interviewing (CATI) facilities.

Survey Design

It was key to keep the survey simple and focus on the two areas needed to determine a relationship.

The survey included the following sections:

- Farm/respondent demographic information
- Farm business management activities practiced
 - Activities, behaviours as well as other sources of influence (ex. attitudes, tools)
- Farm financials and comfort with current financial health of farm operation

The complete final survey can be found in Appendix A.

Data Interpretation

It is important to note that while it is impossible to isolate farm business management activities from all other factors (weather, management style, commodity prices, exchange rates, etc.), this study reveals that regardless of farm type, those who have strong financials tend to engage in management activities; and there are specific management activities that differentiate top financial performers from low financial performers.

It is also important to note that farm business management activities were analyzed using a combination of both attitudes and behaviour in order to best determine a statistical relationship.

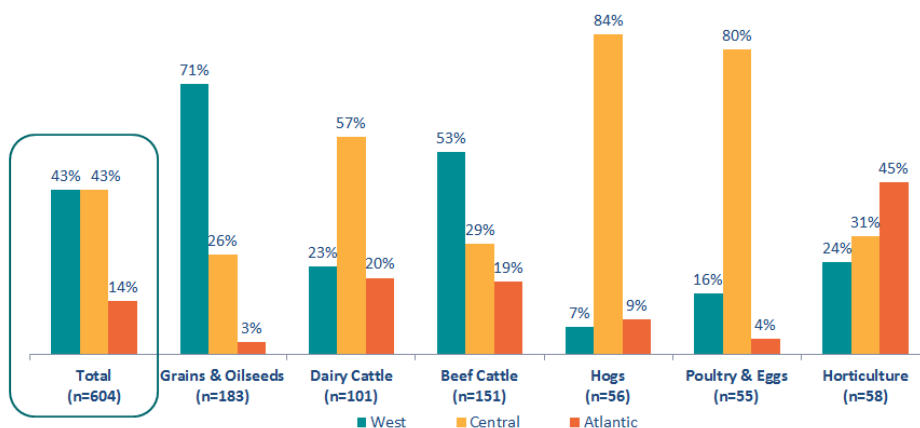
2. DETAILED FINDINGS: Respondent Profiles and Demographics

This section of the report describes the sample of Canadian farmers that participated in this research.

Overall, the study sample is relatively balanced between Western (British Columbia, Alberta, Saskatchewan, Manitoba) and Central Canada (Ontario, Quebec). As is expected, the Grains/Oilseeds/Beef sample is more highly concentrated in Western Canada while the Dairy, Hog and Poultry sample is more highly concentrated in Central Canada.



Respondent Location by Farm Type

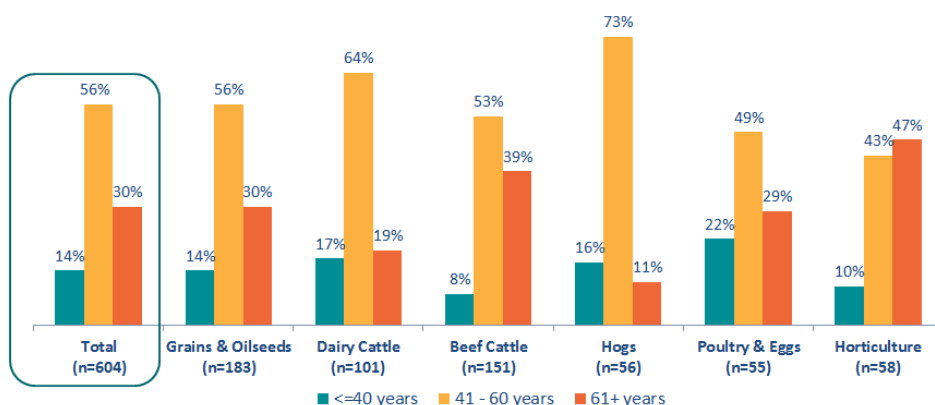


SC5. What province are you located in? Base: All Respondents

The balance of our sample frame is a reflection of the composition of agriculture overall with the majority being between 41 and 60 years old; while another 30% of the sample is older than 60 years.

The average age of all respondents is 54.7. On average, the horticulture sector is the oldest (58.3 years), followed by the beef cattle sector (57.8 years). The highest concentration of younger farmers (<=40 years of age) is found in the poultry/eggs sector.

Age of Respondent by Farm Type

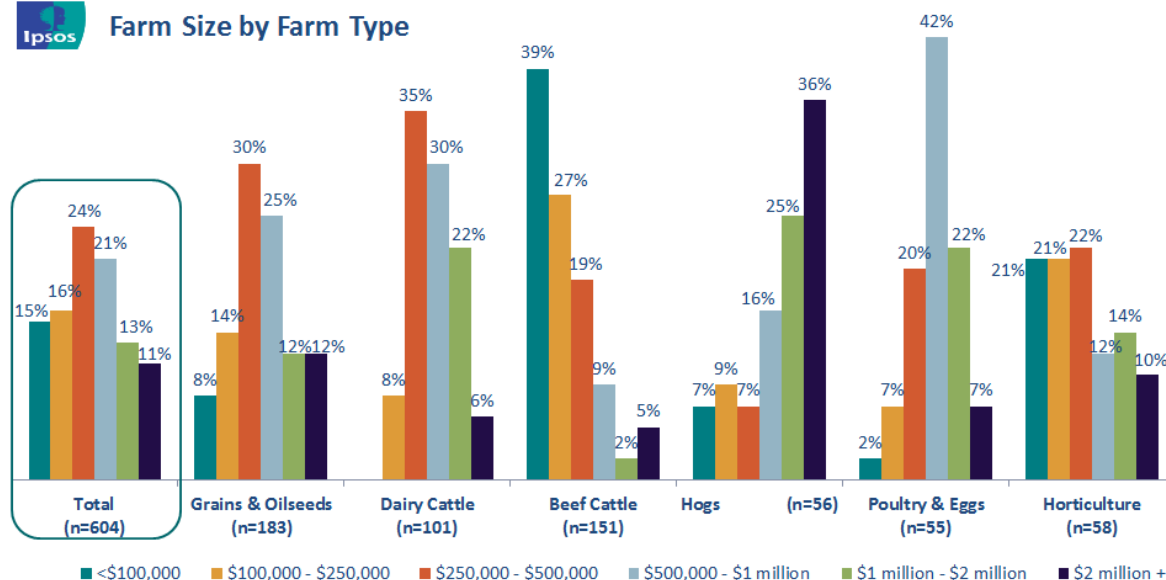


SC6. Please indicate your age. Base: All Respondents

The chart below illustrates sample composition by Gross Farm Sales (GFS) and demonstrates that this research covers a wide and representative range of Canadian farms by farm size.

The distribution of farms by gross farm sales varies significantly by farm type with beef cattle respondents reporting lowest average gross farm sales (39% have <\$100,000 GFS) and hog farmers reporting the highest average gross farm sales (36% have \$2 million or more GFS).

Farm Size by Farm Type



SC4. Would you be willing to tell us your total gross farm sales for 2014? Please be as precise as possible and include any program payments in your gross farm sales estimate. Base: All Respondents

Overall, farms report having 3-4 full-time and 3-4 part-time employees (including the farm owner/manager). Hog farms (likely due to large operation size) and horticulture (likely due to seasonal employment) report the highest numbers of overall employees. Beef operations tend to report the lowest.

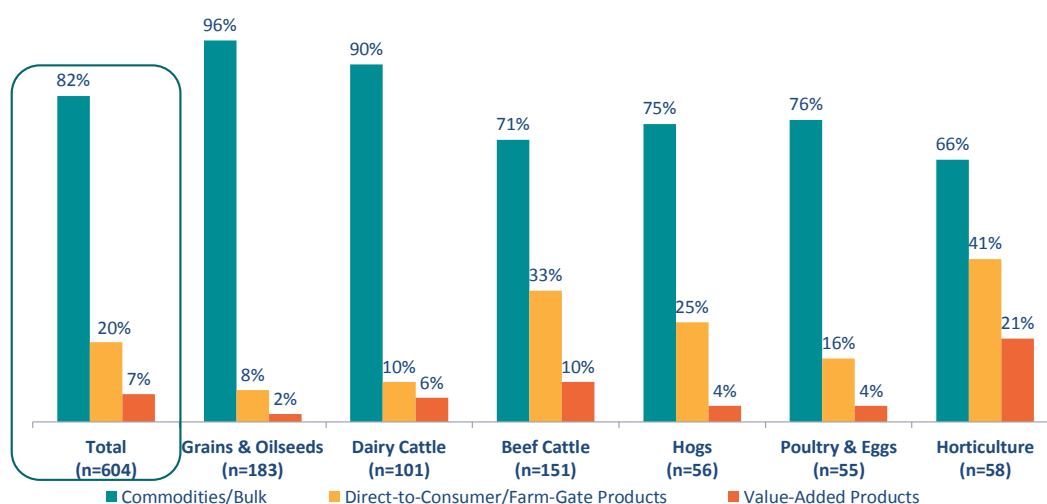
Average Number of Employees by Farm Type

	Average Number of Employees per Farm Type					
	Full-time Family Members (incl. yourself)	Part-time Family Members	Full-time Non-Family Members	Part-time Non-Family Members	Total Employees (Including Farm Owner/Manager)	
					Full-time	Part-time
Total (n=604)	2.6	1.3	1.1	2.2	3.7	3.5
Grains & Oilseeds (n=183)	2.6	1.3	1.1	1.2	3.7	2.5
Dairy Cattle (n=101)	2.7	1.2	0.8	1.3	3.5	2.5
Beef Cattle (n=151)	1.9	1.4	0.4	0.9	2.3	2.3
Hogs (n=56)	4.5	1.0	2.1	1.4	6.6	2.4
Poultry & Eggs (n=55)	2.5	1.2	2.1	1.7	4.6	2.9
Horticulture (n=58)	2.2	2.0	1.4	9.0	3.6	11.0

Q4. Approximately how many of the following types of employees do you have for your farm business? Please include employees that work in any aspect of your operation, including family members, other partners in the corporation and yourself. Base: All Respondents

The majority of respondents indicate they sell only commodities or bulk products, however, about one-in-five report selling farm-gate products. Farm-gate sales are most prevalent in the beef, hog and horticulture sectors.

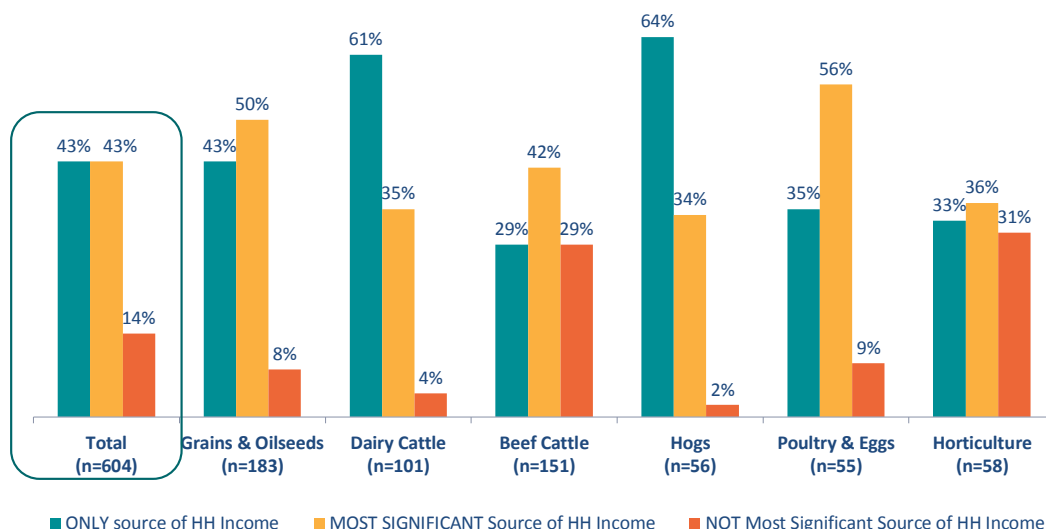
Types of Products Sold by Farm Type



Q1. Which types of products do you sell from your farm business? Select all that apply. Base: All Respondents

86% of respondents report the farm is either the “only” or “most significant” source of household (HH) income. However, there are significant differences by farm type.

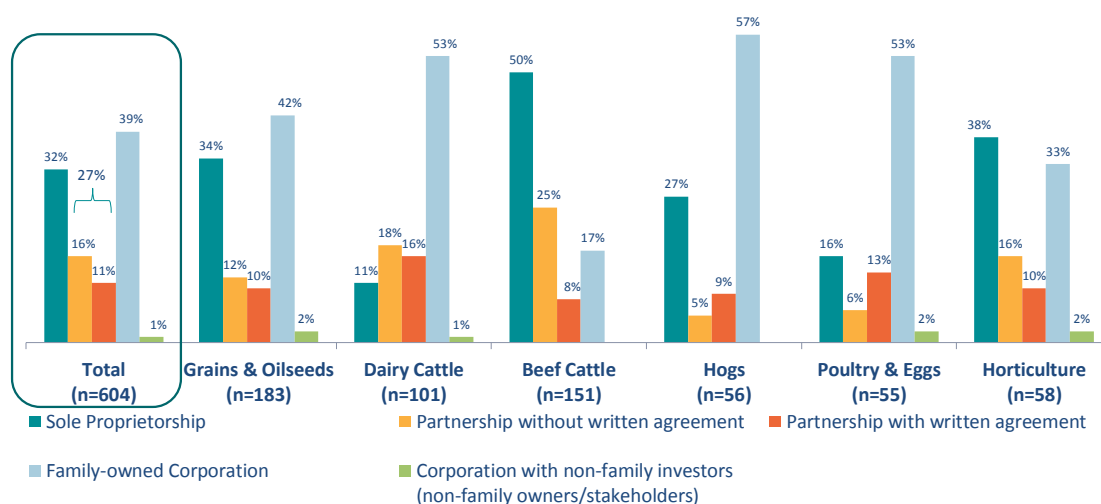
Contribution of Farming to Household Income by Farm Type



SC7. Which of the following best describes your farm business incomes as it relates to your household?
Base: All Respondents

Sole proprietorships and family-owned corporations are the two leading ownership structures, however, partnerships are also quite significant when those with and without written agreements are combined.

Ownership Structure by Farm Type



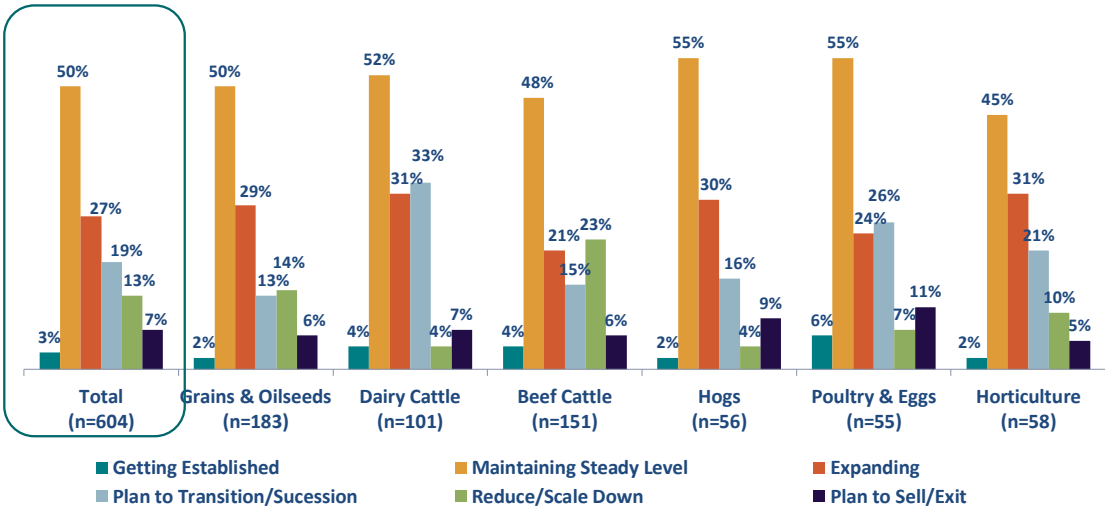
Q3. Which of the following best describes the ownership structure of your farm business? Base: All Respondents

Respondents were permitted to select “all that apply” for their farm status. Relatively few respondents describe themselves as “getting established” and half describe themselves as “maintaining a steady

level”. Over one quarter indicate they are “expanding”; a measure of confidence in their own operations and/or the general agriculture economy.



Current Status by Farm Type



Q2. Which of the following best describes the current status of your farm operation? Base: All Respondents

3. DETAILED FINDINGS: Adoption of Farm Business Management Activities

Introduction and Scope

The business management categories included in the survey were:

- Business Management and Planning
- Marketing Management
- Financial Management
- Human Resource Management and Succession
- Risk Management
- Other Management Activities

In the survey, respondents were asked a series of questions about each of the business management categories listed above. Each question was designed so that respondents would rate themselves on a scale of 1 – 10, one being less than ideal and 10 being ideal. Please see Appendix A for the complete questions in the survey.

Summary Results

The summary table below shows the incidence of engaging in specific business management activities. The tables in this section show the percentage of respondents that rated themselves as an 8, 9 or 10, meaning they engage in these practices continually and towards the ideal standard. Out of a possible score of 100%, the average engagement in business management activities across Canada and production sectors is 43%.

Result Details

- Just over 40% of all respondents have a clear vision and goals for the future, while just under 40% communicate business plans and strategies with other team members and stakeholders within the farm business.
- Just over 25% of all respondents have a formal plan for the business, which is consistent with what was heard in Phase 1 as well as current industry statistics
- Engagement in human resource management activities is the lowest ranking practice overall at 18%
- The ability to read and use Financial Statements has the highest incident of engagement at 73%, followed closely by Animal Care Management at 70%

Summary of Management Activity Practices

Business Management Category	Business Management Activity	Percent Responses with 8,9,10 Ranking
Business Management and Planning	Clear Vision and Goals for the Future	43%
	Communication of Plans and Direction with Stakeholders	39%
	Formal Plan for the Business	26%
Marketing Management	Production Planning Process	57%
	Use of Supply Chain Relationships to add value	51%
	Market/Price Risk Management	36%
Financial Management	Ability to Read & Use Financial Statements	73%
	Business Decisions made using Accounting System	59%
	Financial Risk Management Planning	51%
	Use COP for Benchmarking and Decision Making	50%
	Financial Plan with Budget Objectives	33%
Human Resource Management	Formal Succession / Transition Plan	27%
	Formal Human Resources Plan	18%
Risk Management	Animal Care Management*	70%*
	Environmental Risk Management	44%
	Overall Risk Management	32%
	Contingency Planning	26%
Other Management Activities	Propensity to Learn & Improve	49%
	Use of Farm Business Advisors	32%

Legend:

With Highest Incidence

With Lowest Incidence

(n=604)

*Only asked of those with livestock

4. DETAILED FINDINGS: Financial Performance

Summary of Financial Performance

The chart below shows the median key financial measures of all respondents.

	Median Value
Gross Farm Sales	\$440,000
Total Assets	\$3,069,000
Total Debt (among those with debt ²)	\$450,000

It should be noted that the research team evaluated all of the financial data received from all respondents and withdrew some outliers where the financial data did not seem reasonable. In total, the data team deleted 15% of the sample; hence the sample sizes for the financial information and ratios are smaller than the total sample.

Financial Ratios Analyzed

The following five financial ratios are analyzed throughout the report. As outlined in the definition section below, each measure was selected on the basis of its ability to add an additional dimension of understanding to the vulnerability/strength of a farm business from a financial perspective.

² The following percentages by farm type reported no long-term debt: G&O: 24%; Beef: 43%; Hogs: 6%; Poultry & Eggs: 43%; Dairy: 17%; and Horticulture: 31%. Therefore the base sizes are extremely small for total debt and the debt ratios.

Ratio	Calculation	Definition	Vulnerable	Moderate	Strong
Asset Turnover	Gross Farm Sales / Total Assets	A measure of profitability that shows the efficiency of a business in generating sales relative to the value of the assets deployed.	<10%	10-30%	>30%
Gross Margin Ratio	(Gross Farm Sales – COGS) / Gross Farm Sales	An efficiency ratio that measures the percentage of sales the business retains after incurring the direct costs of production. It shows the amount a company has left over after paying direct costs to service other costs and obligations and reinvest.	<50%	50-65%	>65%
Return on Assets	(Gross Farm Sales – COGS) / Total Assets	A profitability ratio that shows how efficient management is at using its assets to generate profit.	<3%	3-5%	>5%
Debt / Equity Ratio	Total Debt / (Total Assets – Total Debt)	A measure of financial leverage that indicates what proportion of equity the company is using to finance its assets. The lower the ratio, the less risk.	>80%	40-80%	<40%
Gross Return on Equity	Gross Farm Sales / (Total Assets – Total Debt)	A profitability ratio that measures how much revenue producers are making on their investments. The higher the ratio, the better the return on their investment.	<3%	3-10%	>10%

*COGS: Cost of Goods and Services

The chart below shows the median key financial ratios of all respondents.

	Median Value
Asset Turnover	13.8%
Gross Margin Ratio	35.2%
Return on Assets	4.4%
Debt/Equity Ratio**	18.0%
Gross Return on Equity Ratio**	19.0%

5. DETAILED FINDINGS: Driver Analysis

An Ipsos proprietary regression-based driver analysis was a critical component of the study output as it established or 'proved' there is a relationship between financial performance (dependent variable) and the business management activities tested. In the case of this study, financial performance (dependent variable) is a "Financial Success Score" (FFS) calculated at the farm level.

Calculating the Financial Success Score

For any respondent to be included in the driver analysis, we required four key financial inputs:

- Gross Farms Sales in 2014
- Total production-related expenses in 2014
- Market Value of farm-related assets
- Total long-term farm-related debt

The research team evaluated all of the financial data received from all respondents and withdrew some outliers where the financial data did not seem reasonable.

Our initial intention was to develop a "Financial Success Score" based on five ratios. However, ratios including debt were problematic due to the nature of developing a debt "score". Farms with no current debt (as noted in the section above) received "perfect" (100/100 available points) scores on debt-related metrics. This resulted in an overall lack of variability in the first analysis. Without variability in the dataset, no key drivers could be identified.

Ultimately, we were able to identify a relationship between activities and financial success through the development of a "Financial Success Score" based on: Return on Assets (ROA), Gross Margin Ratio (GMR) and Asset Turnover (AT).

For each respondent farm, the three ratios included in the "Financial Success Score" were calculated. Farms were then segmented by farm type. This was done to ensure that driver analysis results were based on overall financial success rather than the success of any commodity type or supply management model.

Raw financial measures were then converted to indices. For each of the three ratios, the farm with the most ideal performance (within each farm type) was identified and given a perfect score of 100. The farm with the least ideal performance (within each farm type) was identified and given a score of 0. All other farms in that commodity type were assigned a relative score between 0 and 100. Therefore farms in every farm type had an equal chance at being in the top or bottom of the "FSS."

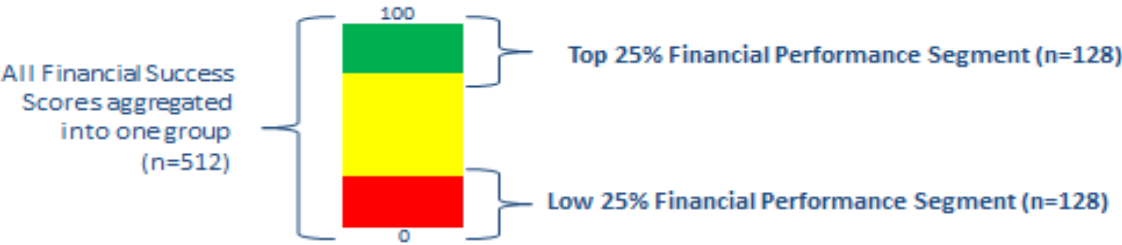
$$\text{FINANCIAL SUCCESS SCORE} = \frac{(\text{INDEX FOR ROA}) + (\text{INDEX FOR GMR}) + (\text{INDEX FOR AT})}{3}$$

This "Financial Success Score" became the dependent variable in the driver analysis.

The scores for all farm types were then aggregated.

Given the focus on establishing the degree to which farm business management activities 'pay', the driver analysis included only the top performing 25% and bottom performing 25%.

Financial Success Score Schematic



Results of Driver Analysis

Based on the driver analysis of the top and low financial performance segment, impact scores were derived between the dependent variable and the farm business management activities analyzed. The table below shows the impact scores that were derived. Variables with an impact score of 0.70 or higher are considered to have a statistical relationship with the dependent variable (Financial Success Score). Variables with an impact score of 0.8 or higher are considered to have a stronger relationship with the dependent variable.

While there are myriad factors that impact the financial success of a farm operation in a given year, this research establishes a strong link between farm financial success and: 1) an ongoing commitment to training and personal development, 2) access to and use of detailed, up to date and accurate reports from accounting systems 3) and the use of professional business advisors.

It is important to note that this analysis does not take into account the degree to which management activities versus other factors (weather, commodity prices, etc.) influence farm financial success. However, it does establish that those who engage in management activities tend to have stronger financials than those who do not, regardless of commodity group.

Also, we must be clear that the management activities that have a weaker relationship to the “Financial Success Score”, are not unimportant management activities and may still have an impact on the financial health of a farm business, however, it is the use of the top management activities that differentiates the top performing and low performing farms.

Management Activity Drivers of Financial Success

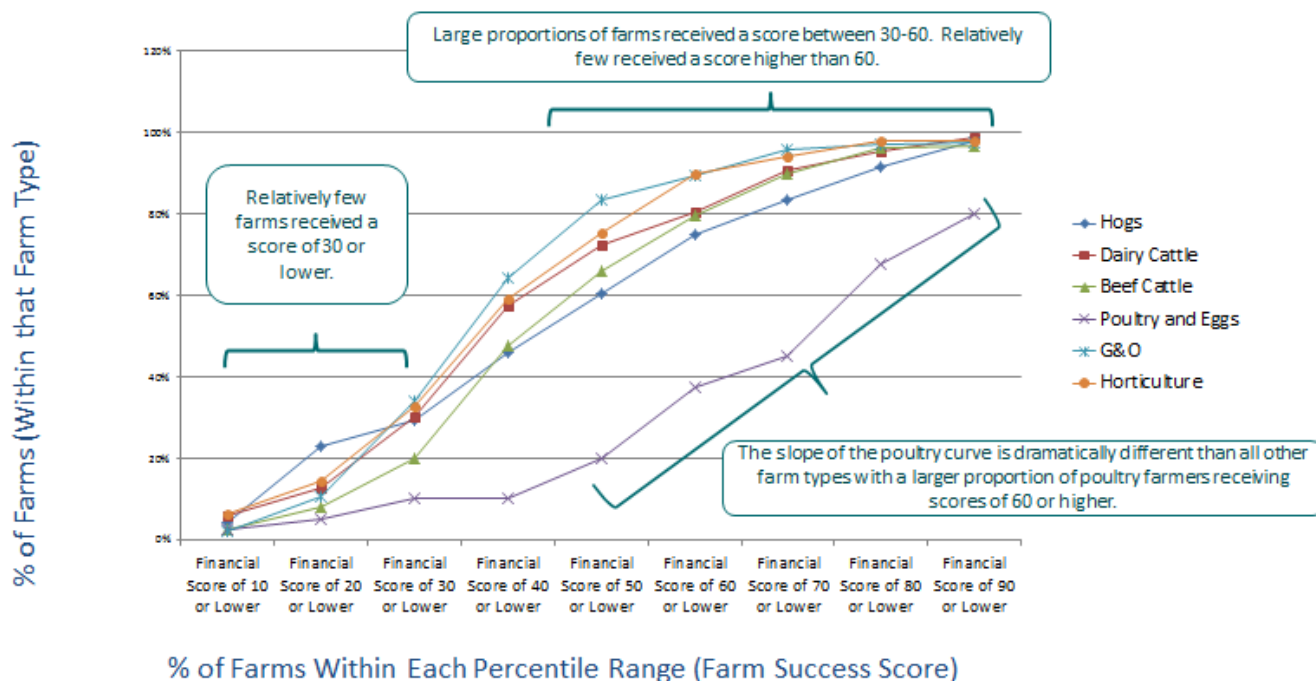
Management Activity	Impact Score	
Propensity to Learn and Improve	1.00	Key drivers of farm financial success
Business Decisions Made Using Detailed, Up-to-Date Accounting Reports	0.89	
Use of Professional Farm Business Advisors	0.89	
Use of Formal Business Plan and Process	0.76	Significant drivers of farm financial success
Use of Cost of Production for Benchmarking, Monitoring and Decision-Making	0.72	
Risk Assessment and Management	0.70	
Use of Financial Plan with Budget Objectives and Monitoring	0.70	
Human Resource Planning and Management	0.64	
Communicating Plans and Direction with Stakeholders	0.61	
Clear Vision and Goals	0.61	
Interpretation and Use of Financial Statements	0.58	
Use of Formal Succession/Transition Plan and Process	0.54	
Risk Management and Contingency Planning	0.53	
Market/Price Risk Management	0.52	
Financial Risk Management	0.47	
Management of Relationships with Supply Chain	0.41	
Use of Formal Planning for Production	0.39	
Animal Welfare Risk Management	0.12	
Environmental Risk Management	0.00	

6. DETAILED FINDINGS: Profile of Low and Top Financial Performance Segments

The chart below illustrates the cumulative distribution of farms by farm success score. The distribution of farm success is very consistent across farm types, suggesting that our formula for farm financial success establishes a high degree of variability in the data. Poultry is an exception, whereby a greater number of respondents received a financial score greater than 60.



Farm Type by Financial Performance



Summary Results

When those farms in the Top 25% Financial Performance Segment are compared with the Low 25% Financial Performance Segment, the following variabilities can be observed as affecting farm financial performance:

- Farm type
- Farm business structure
- Age of the farm operator
- Number of employees
- Reliance on the farm as main source of household income
- Stage of farming

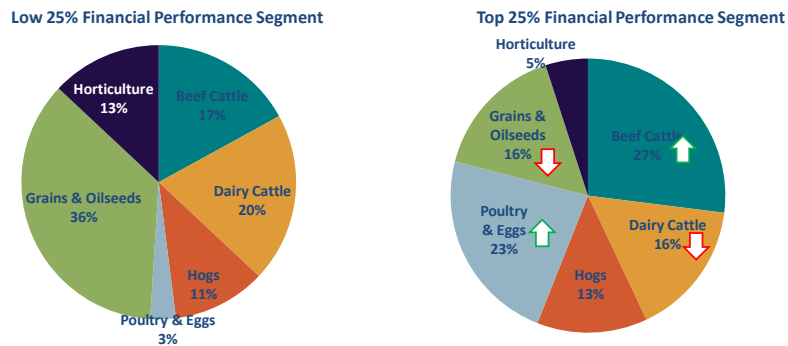
Conversely, the following variables can be observed as having no effect on farm financial performance:

- Farm location (geographic region)
- Farm size

When only the top 25% scores (of any farm type) are compared with the low 25% scores (of any farm type), there are some significant differences in the composition of these groups by farm type.

Beef cattle and poultry/eggs tend to be more highly concentrated among those with the top 25% of Financial Success Scores. Grains & oilseeds and dairy producers tend to be less highly concentrated.

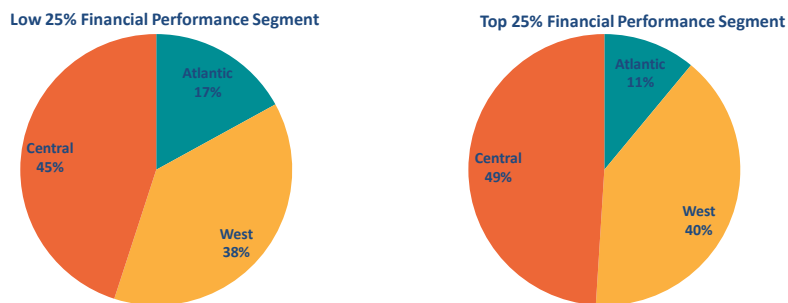
Farm Type by Financial Performance Segment



SC3. Which of the following types of farming or production contributed the most to your gross farm sales last year, 2014? Base: Top 25% Performance Segment; Low 25% Performance Segment

Overall, the location of the Low and Top Financial Performance Segments is relatively balanced.

Respondent Location by Financial Performance Segment

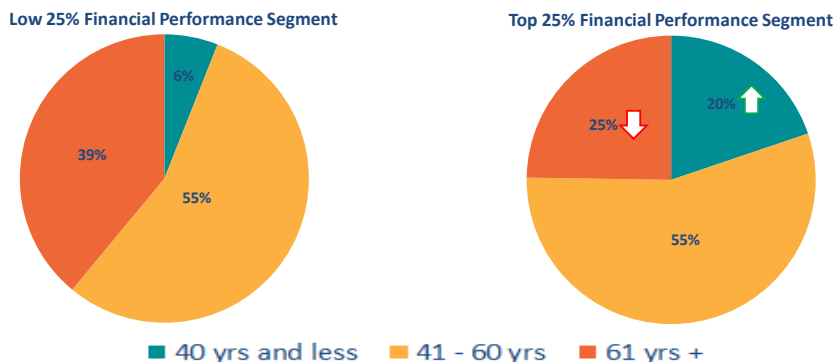


SC5. What province are you located in? Base: Top 25% Performance Segment; Low 25% Performance Segment

Those farms in the Top Financial Performance Segment include a significantly greater number of respondents 40 years and less; whereas the Low Financial Performance Segment has a greater proportion of respondents over 60 years of age.



Age of Respondent by Financial Performance Segment



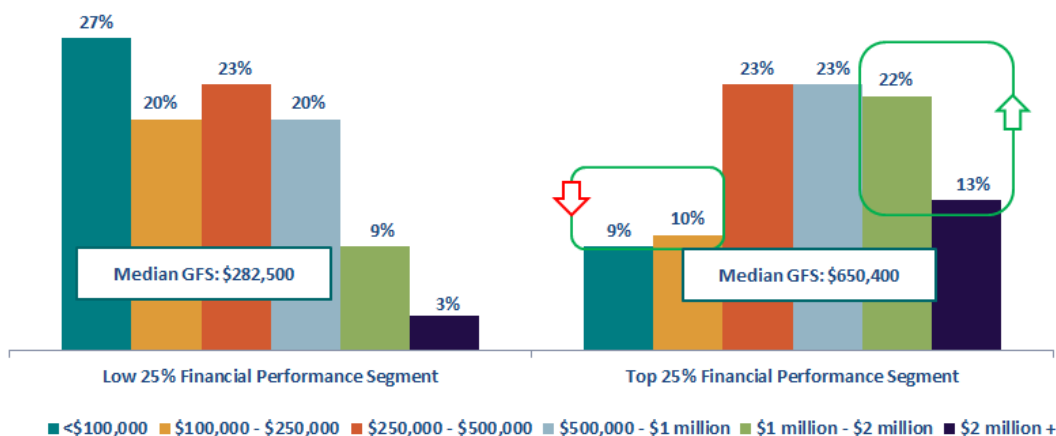
SC6. Please indicate your age. Base: Top 25% Performance Segment; Low 25% Performance Segment

The chart below illustrates sample composition by farm size by Financial Performance Segment. Although there is certainly a higher concentration of larger farms in the top 25% of financial performers, those with gross farm sales of less than \$250,000 still represent nearly 20% of this segment.

Further, among the low 25% financial performance segment, over 10% are farms with \$1,000,000+ in gross farm sales.



Farm Size by Financial Performance Segment



SC4. Would you be willing to tell us your total gross farm sales for 2014? Please be as precise as possible and include any program payments in your gross farm sales estimate.

Base: Top 25% Performance Segment; Low 25% Performance Segment

The chart below illustrates that those farms in the Top 25% Financial Performance Segment have, on average, more employees than the Low 25% Financial Performance Segment.

Average # of Employees by Financial Performance Segment

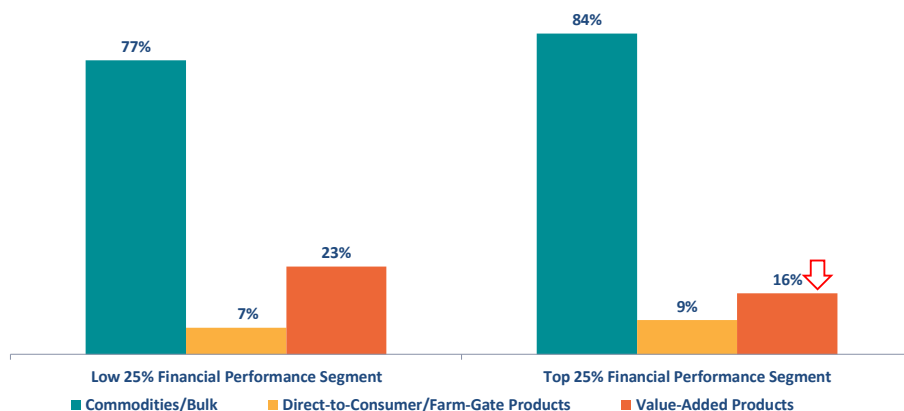
	Average # of Employees per Farm Type					
	Full-time Family Members (incl. yourself)	Part-time Family Members	Full-time Non-Family Members	Part-time Non-Family Members	Total Employees (Including Farm Owner/Manager)	
					Full-time	Part-time
Low 25% Performance Segment	1.9	1.2	0.5	1.5	2.4	2.7
Top 25% Performance Segment	3.2	1.4	0.9	2.6	4.1 ↑	4 ↑

Q4. Approximately how many of the following types of employees do you have for your farm business? Please include employees that work in any aspect of your operation, including family members, other partners in the corporation and yourself.

Base: Top 25% Performance Segment; Low 25% Performance Segment

Regardless of segment, most sell only commodities/bulk products. Interestingly, there is a higher concentration of those who sell value-added products in the Low 25% Financial Performance Segment.

Types of Products Sold by Farm Type

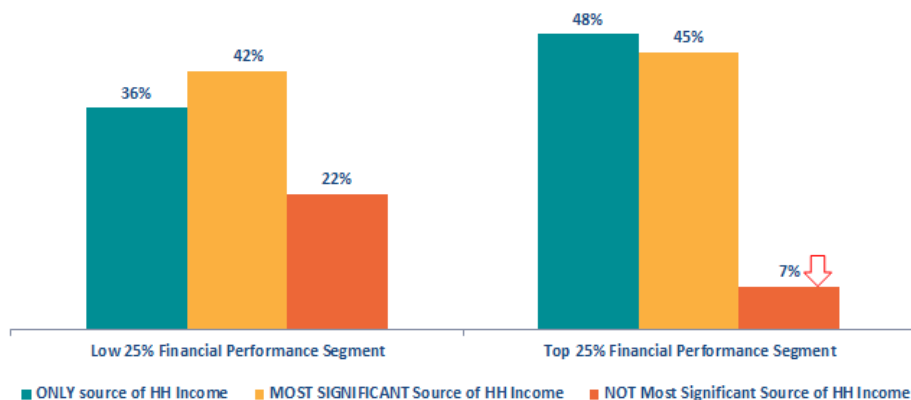


Q1. Which types of products do you sell from your farm business? Select all that apply.

Base: Top 25% Performance Segment; Low 25% Performance Segment

A significantly higher proportion of those farms in the Top 25% Financial Performance Segment identify farm income as their only source of income.

Contribution of Farming to Household Income by Farm Type

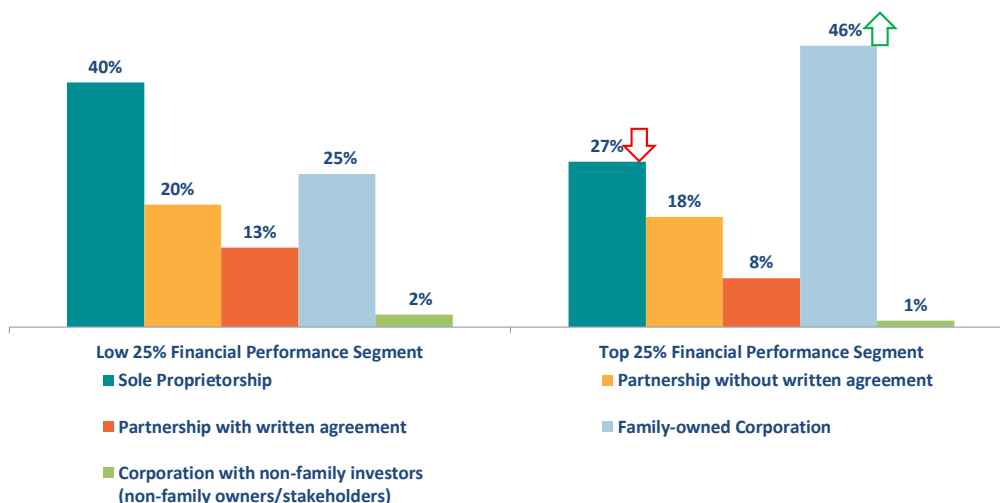


SC7. Which of the following best describes your farm business incomes as it relates to your household?
Base: Top 25% Performance Segment; Low 25% Performance Segment

Ownership structure of the farm business is significantly different by Financial Performance Segment.

Those in the top 25% financial performance segment are much more likely to report their farm is structured as a family-owned corporation rather than a sole proprietorship.

Ownership Structure by Farm Type

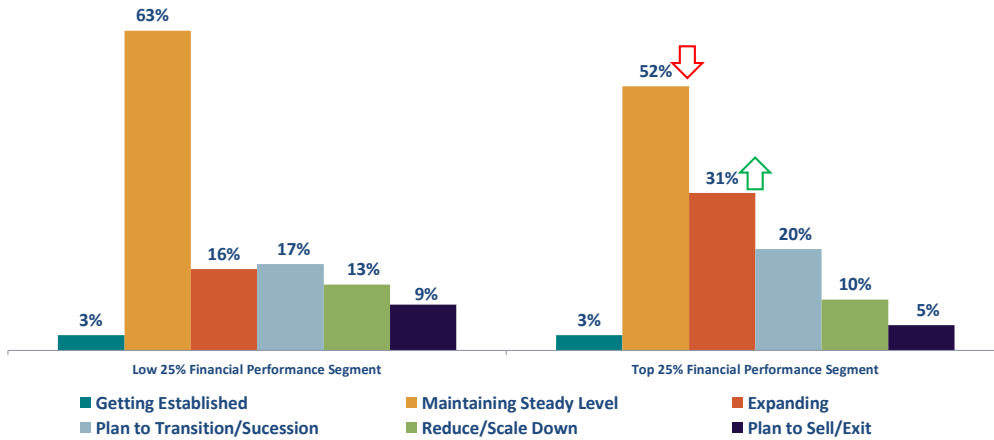


Q3. Which of the following best describes the ownership structure of your farm business?
Base: Top 25% Performance Segment; Low 25% Performance Segment

Those in the top 25% financial performance segment are twice as likely to be “expanding” and are less likely to be “maintaining a steady level”.



Current Status by Farm Type

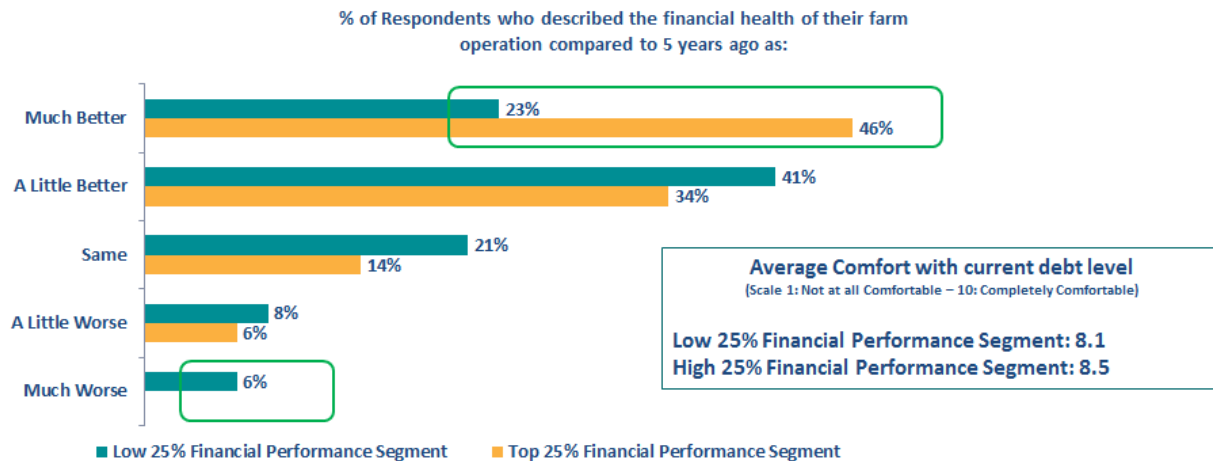


Q2. Which of the following best describes the current status of your farm operation?
Base: Top 25% Performance Segment; Low 25% Performance Segment

Nearly half of the farms in the Top 25% Financial Performance Segment feel the financial health of their farms is much better than 5 years ago; double that of the Low 25% Financial Performance Segment.



Trend in Financial Health of Operation by Financial Performance Segment



Q29. Lastly, relative to five years ago, which of the following best describes the financial health of your farm operation? Would you say it is:
Q28. To what extent are you comfortable with the debt level of your operation?
Base: Top 25% Performance Segment; Low 25% Performance Segment

7. DETAILED FINDINGS: Management Activity by Financial Performance Segment

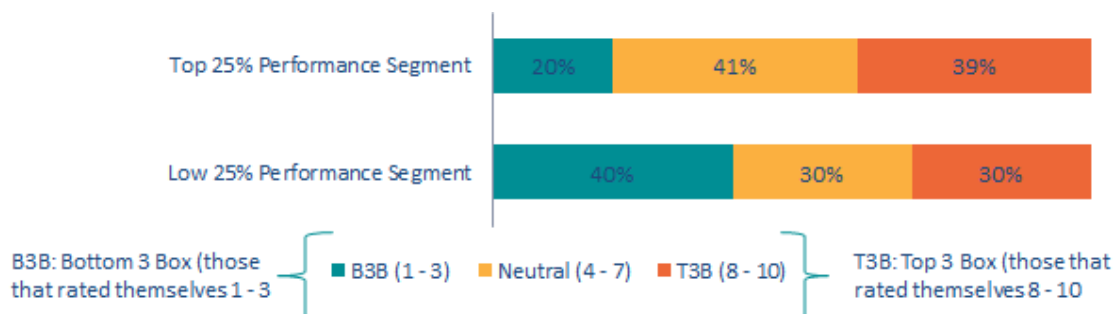
As shown by the Driver Analysis, there are seven management activities (independent variables) that have a relationship with the Financial Success Score.

1. Propensity to Continually Learn: Actively seek new information and opportunities for learning and skills development
2. Business Decisions Made with Accurate Financial Data: Financial information is up to date, accessible and used for timely decision making
3. Use of Professional Business Advisors: Use a trusted farm business advisor or team of advisors to review the business on a regular basis and ensure activities are meeting strategic objectives
4. Use of Formal Business Plan: Use, review, and update written business plan throughout the year in making business decisions
5. Cost of Production Monitoring and Use: Calculate, review and monitor cost of production for every production cycle and use for benchmarking and management decisions
6. Risk Assessment and Management: Actively looking out for emerging risks and using format risk management programs and tools to manage risk
7. Use of Financial Plan with Budget Objectives: Use a budget including revenues and expenses for each product, department or area of the farm business

The following section shows that the Top 25% Financial Performance Segment performs these management activities more consistently and/or thoroughly than the Low 25% Performance Segment. This shows that these management activities have an impact on farm financial health because it is these activities that are driving the Financial Success Scores.

The following charts show the difference in how farmers in the Top 25% Financial Performance Segment and the Low 25% Financial Performance Segment rated themselves on a scale of 1 to 10 on the business management activities that were found to drive financial success.

Example Chart



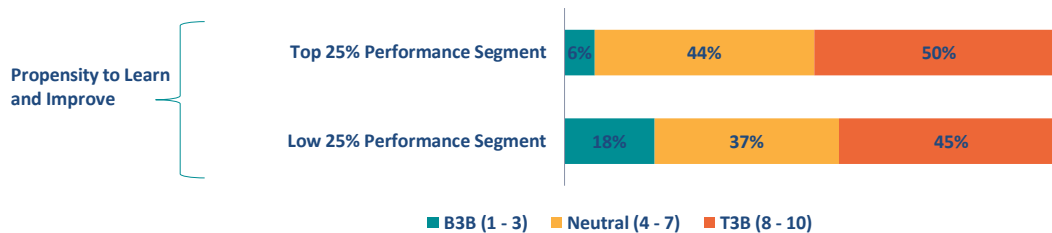
1. Propensity to Continually Learn and Improve with Training and New Knowledge

The propensity to seek new information and opportunities for learning and skills development is a key driver of financial success.

The Low 25% Financial Performance Segment has a significantly greater proportion (18% versus 6%) of farmers who do not actively seek out new information and attend training sessions for learning and skills development. Whereas the majority of the Top 25% Financial Performance Segment actively seek out new information and opportunities.



Management Activity by Financial Performance Segment: Propensity to Learn and Improve



Q23. Please indicate your propensity to move forward, and continually improve through training and new knowledge using the 10-point scale, where 1 means I attend training sessions only when required; and 10 means I actively seek new information and opportunities for learning and skills development across a wide range of areas that help me improve my skills. Base: Top 25% Performance Segment; Low 25% Performance Segment

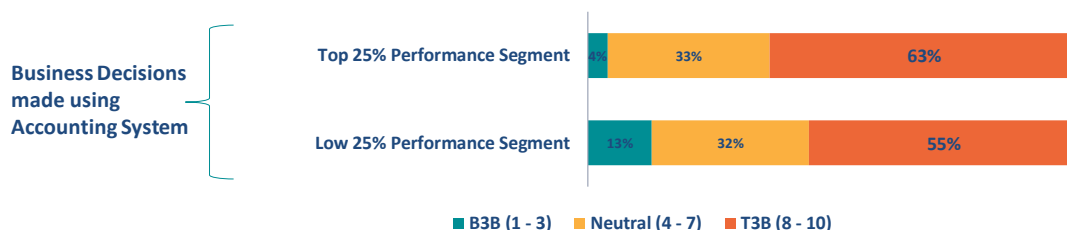
2. Access and Use of Accounting Information to Make Business Decisions

The use of accurate, up-to-date accounting information to make timely management decisions is a key driver of financial success.

A small proportion of the Top 25% Performance Segment do not keep their financial data up to date and nearly two-thirds of this segment keep up-to-date records and use it for timely decision making.



Management Activity by Financial Performance Segment: Business Decisions made with Accounting Data



Q8. Please indicate where you feel your business rates when it comes to the level of detail that you receive from your accounting system for business decision-making. Please provide a rating from 1 to 10 where 1 means our financial reports are often months behind so we do not use them on a regular basis; and 10 means our financial information is up to date, accurate, and accessible to our team AND we use it for timely decision making.

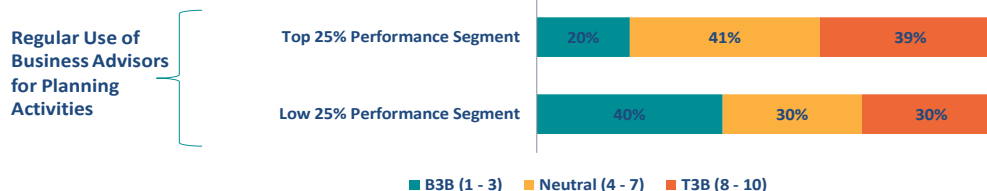
Base: Top 25% Performance Segment; Low 25% Performance Segment

3. Use of Professional Farm Business Advisors

The use of farm business advisors to review the business on a regular basis and ensure activities are meeting strategic objectives is a key driver of farm financial success. Those in the Low 25% Performance Segment are twice as likely to indicate they do not use advisors on a regular basis.



Management Activity by Financial Performance Segment: Regular Use of Business Advisors



Q22. On a scale of 1 to 10, please indicate how you use farm business advisors, coaches and consultants for business planning, financial planning, succession planning, conflict resolutions or communications; where 1 means we do not use farm business advisors on a regular basis; and 10 means we have a trusted farm business advisor or team of advisors that we work with to review the business on a regular basis and ensure our activities are meeting our strategic objectives.

Base: Top 25% Performance Segment; Low 25% Performance Segment

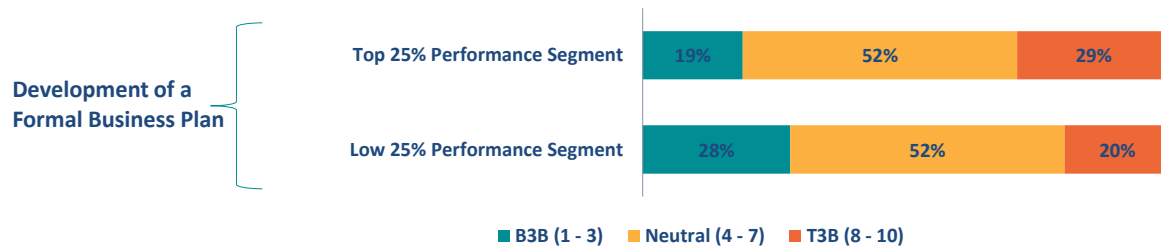
4. Use and Regular Review of a Formal Business Plan

The development and regular review of a formal, written business plan to make timely management decisions throughout the year is a significant driver of the farm financial success.

Those farms in the Top 25% Performance Segment more often have a developed formal business plan and review it regularly to ensure they are keeping on course with their objectives and goals. Nearly 30% of farms in the Low 25% Performance Segment have not developed a business plan for their operation.



Management Activity by Financial Performance Segment: Development and Regular Use of a Formal Business Plan



Q6. Where do you feel your business rates when it comes to having a formal plan for your farm business? Please provide a rating from 1 to 10 where 1 means we have not developed any kind business plan for our operation; and 10 means we have a written business plan and review and update it at least once per year.

Base: Top 25% Performance Segment; Low 25% Performance Segment

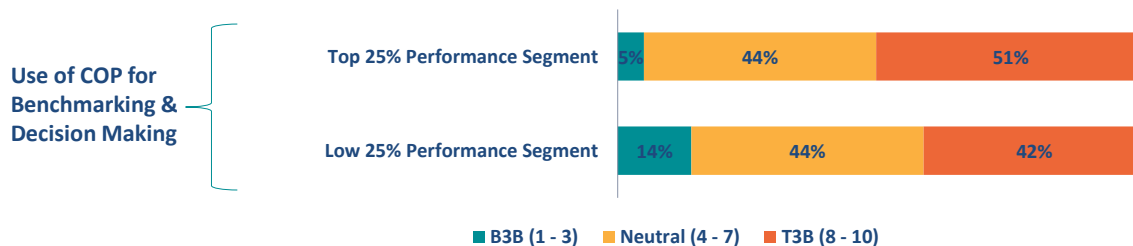
5. Use of Cost of Production (COP) Data for Benchmarking and Decision-making

The use of cost of production data for benchmarking or decision making for every production cycle is a significant driver of farm financial success.

More than half of those farms in the Top 25% Performance Segment regularly calculate, monitor and review their cost of production data to make management decisions and/or for benchmarking purposes. Whereas, farms in the Low 25% Performance Segment are almost three times more likely to not use cost of production for management decisions, compared to the Top 25% Performance Segment.



Management Activity by Financial Performance Segment: Use of COP for Benchmarking and Decision Making



Q10. To what extent do you calculate, record and monitor your cost of production in order to make management decisions? Please provide a rating from 1 to 10 where 1 means we do not monitor our cost of production; and 10 means we calculate, review and monitor our cost of production for every production cycle and use it for benchmarking purposes and management decisions.

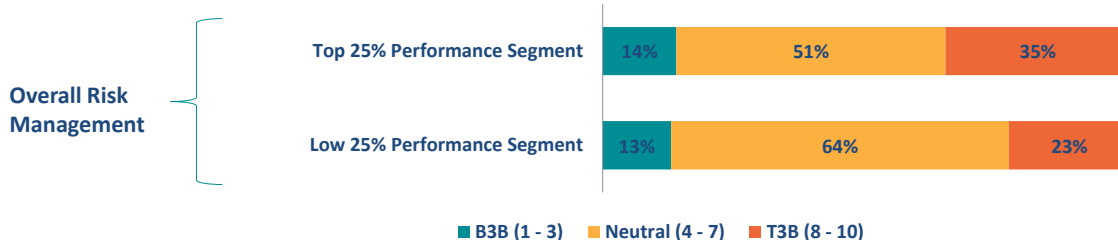
Base: Top 25% Performance Segment; Low 25% Performance Segment

6. Risk Assessment and Management

Proactivity in looking out for risk and using formal risk management tools and programs is a significant driver of farm financial success. Those in the Top 25% Performance Segment are 52% more likely to be proactive when it comes to using formal risk management tools.



Management Activity by Financial Performance Segment: Overall Risk Management



Q17. Please rate how you assess and manage risks that could affect your farm business. Please provide a rating from 1 to 10, where 1 means we respond to risks as issues arise, and 10 means we are constantly on the lookout for emerging areas of risk that could affect our farm business and are proactive with using formal risk management programs and tools, written processes, contracts and/or operating procedures to manage those risks.

Base: Top 25% Performance Segment; Low 25% Performance Segment

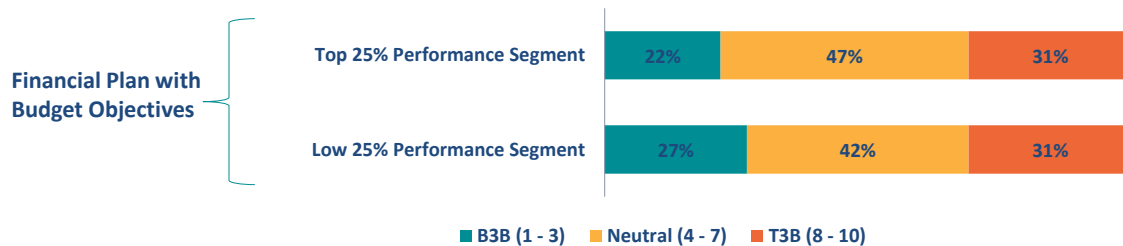
7. Use of Financial Plan with Budget Objectives

Having a financial plan with budget objectives for each product, department or area of the farm business is a significant driver of farm success.

Those in the Top 25% Performance Segment are significantly less likely to disagree with having a financial plan with budget objectives.



Management Activity by Financial Performance Segment: Financial Plan



Q9. Please indicate the degree to which your farm business has a financial plan with budget objectives for each area of your business. Please provide a rating from 1 to 10 where 1 means no, we do not have a budget; and 10 means we have a budget of revenues and expenses for each different product, department or area of our farm business.

Base: Top 25% Performance Segment; Low 25% Performance Segment

8. Detailed Findings – Financial Metrics by Financial Performance Segment

The chart below shows the difference in key financial measures between the Financial Performance Segments.

- Overall, farms within the Top 25% Financial Performance Segment have over two times the Gross Farm Sales than those in the Low 25% Performance Segment.
- Total Assets are relatively similar and Total Debt is higher among the Top 25% Performance Segment. The difference in the debt levels between the Performance Segments shows that the amount of debt is less important than how the debt is managed.

		Median Value	Percent Change
Gross Farm Sales	Top 25%	\$650,400	130% ↑
	Low 25%	\$282,500	
Total Assets	Top 25%	\$3,025,000	7% ↑
	Low 25%	\$2,827,500	
Total Debt (among those with debt)	Top 25%	\$520,000	40% ↑
	Low 25%	\$373,000	

(n=512*)

The chart below shows the collected program payment information by total and financial performance segments.

- Based on the information below, the project team decided to use the total Gross Farm Sales value (which includes program payments) in the ratio calculations and in determining Financial Performance Segment, but not analyze them separately for the following reasons:
 - 45% of the total sample indicated they did not receive program payments and therefore the median values are relatively low and would have minimal impact on the ratios
 - We are unsure which programs they are referring to so there is no detail to be included with these calculations

	Median Value
Program Payments – Total Sample	\$1,000
PP – Top 25% Financial Performance Segment	\$1,250
PP – Low 25% Financial Performance Segment	\$775
% of Sample with no Program Payments	45%
Program Payments – Sample of Only those who identified they received Program Payments	\$10,000

(n=512*)

The following chart shows the difference in key financial measures between the Top 25% of all farms (using the Financial Success Score) and the Bottom 25%.

In all of the ratios shown below, the Top 25% Financial Performance Segment performs better than the Low 25% Financial Performance Segment.

Overall, asset turnover improves by 100% in the Top 25% Performance Segment, the gross margin ratio improves by over 150% and Return on Assets improves by 525%.

		Value	Industry Rating	Percent Change
Asset Turnover	Top 25%	20.0%	Moderate	100% ↑
	Low 25%	9.7%	Vulnerable	
Gross Margin Ratio	Top 25%	50.0%	Moderate	155% ↑
	Low 25%	19.6%	Vulnerable	
Return on Assets	Top 25%	10.0%	Strong	525% ↑
	Low 25%	1.6%	Vulnerable	

The following chart shows the difference in key financial measures between the Top 25% Financial Performance Segment and the Low 25% Financial Performance Segment.

- Overall, the Debt-to-Equity ratio is 60% higher for the Top 25% Financial Performance Segment; a result that is counterintuitive to what we would expect. However, this could be a result of acquiring debt due to expansion and/or because the Top Performance Segment feels comfortable taking on more debt and can manage it appropriately.
- Gross Return on Equity is 100% higher in the Top 25% Financial Performance Segment compared to the Low 25% Financial Performance Segment.

		Value	Industry Rating	Percent Change
Debt/Equity Ratio**	Top 25%	23%	Strong	60% ↓
	Low 25%	14%	Very Strong	
Gross Return on Equity Ratio**	Top 25%	29%	Very Strong	100% ↑
	Low 25%	14%	Strong	

9. Summary and Conclusions

The purpose of this project was to establish the degree to which farm business management practices are direct drivers of farm financial success.







The research was successful in identifying the linkage between specific business management activities and financial outcomes using a nationally representative, statistically reliable sample.

Key results of this research include:

1. Statistically reliable and representative sample frame
 - The sample source for this study was Ipsos' database of over 120,000 Canadian farmers. This database is recognized as the largest agricultural database in Canada and is routinely used by government (federal and provincial), financial institutions, crop/chemical/animal health companies and other industry stakeholders.
 - A sample size of n=604 has a maximum margin of error of +/- 3.99% at the 95% confidence interval.
 - A disproportionate sampling strategy was implemented to increase sample sizes among larger farms, farms in provinces with lower populations of farmers and lower incidence farm types.
2. High quality and unbiased data collection process
3. Comprehensive stakeholder engagement in development of dependent variable
 - Development of a Financial Success Score that succeeds as a dependent variable in driver analysis, but does not provide an outcome strongly biased toward any single farm type or farm size
4. Driver analysis that identifies a few key drivers of farm financial success as well as several other drivers derived from business management activities
5. Proof that these drivers are related with desirable financial outcomes.

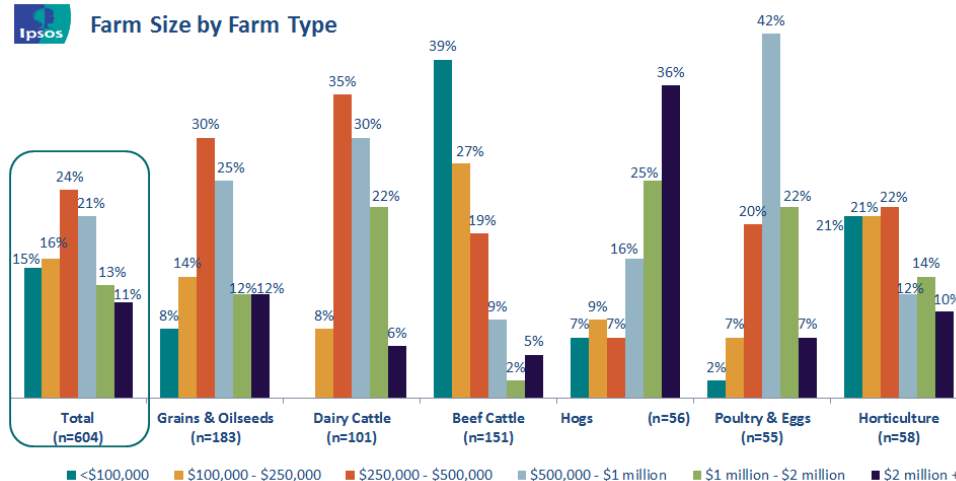
Research Result 1: Statistically reliable and representative sample frame

The sample source is perhaps the best in Canada for conducting national studies with farmers. The sample frame is designed in a way that allows for meaningful comparisons against most relevant subgroups.

Farm Type	Grain & Oilseed	Beef Cattle	Hogs	Poultry & Eggs	Dairy Cattle	Horticulture	Total
							
Province							
Atlantic	6	28	5	2	20	26	87
QC	18	23	28	3	33	10	115
ON	30	20	19	41	25	8	143
MB	42	11	4	4	2	1	64
SK	66	16	-	-	1	-	83
AB	19	30	-	-	8	3	60
BC	2	23	-	5	12	10	52
Total	183	151	56	55	101	58	604



Farm Size by Farm Type



SC4. Would you be willing to tell us your total gross farm sales for 2014? Please be as precise as possible and include any program payments in your gross farm sales estimate. Base: All Respondents

Research Result 2: High Quality and Unbiased Data Collection Process

The data collection process included many controls that contribute to reliability of results. Although the data collection process does not meet the “gold standard” of sitting down with a respondent and reviewing hard copies of financials together, we believe this study utilized the only realistic method of collecting data from over 600 farms in a reliable, efficient manner. Feedback during pre-test interviews and analysis of the farm financial data by the project team suggests relatively few respondents had a poor or unrealistic view of their farm financials.

- The survey instrument was developed based on the combined experience of the project team (highly experienced in market research methods and knowledgeable in business management practices, financial analysis and the agriculture sector).
- The survey subject matter, including potential barriers to success, were discussed during the Phase 1 stakeholder interviews. Feedback from these interviews was used to finalize the survey instrument.
- Pre-test interviews with farmers concluded that survey questions were understood by respondents. The pre-test also revealed that farmers were relatively “open” to discussing their farm financials and that many had reviewed them prior to conducting the study (at the request of the recruiter). Further, fieldwork was scheduled to coincide with the 2014 tax season, meaning that many would have very recently reviewed financials with their accountant.
- The quantitative survey was fielded using Ipsos Reid’s state of the art Computer Assisted Telephone Interview (CATI) Centres located in Canada. The survey was fielded in both official languages and adhered to the Marketing Research and Intelligence Association (MRIA) quality control standards. Optionally, respondents had the choice to complete the survey online.
- All farm financial data were personally reviewed by the research team and farms with questionable results were eliminated from analysis.

Research Result 3: Comprehensive Stakeholder Engagement in Development of Dependent Variable

The Financial Success Score is validated by several aspects of this research:

- We see a significant gap in financial performance of those that receive a high score and those who receive a low score across all farm types.
 - We see an even distribution of farms across the range of scores (0-100) that is consistent across all farm types³.
 - We see good representation from all farm types and sizes among the Top 25% Financial Performance Segment.
 - We are able to establish a link between adoption of business management activities and the Financial Success Score.
- The Phase 1 in-depth interviews revealed defining farm financial success is contentious, even among financial professionals. Nearly all institutions have their own set of norms and unique set of ratios they prefer.
 - These interviews, along with an extensive evaluation of the dataset, resulted in the project team deciding on a score that combined Asset Turnover, Gross Margin Ratio and Return on Assets. Initial “draft” versions of the Financial Success Score included debt ratios, however, this created challenges as zero debt could be perceived as extremely high or extremely low scores on these measures.
 - Feedback from the project team and key industry stakeholders was obtained throughout this process.

Research Result 4: Statistically Reliable Driver Analysis Demonstrates that Management Activities Pay

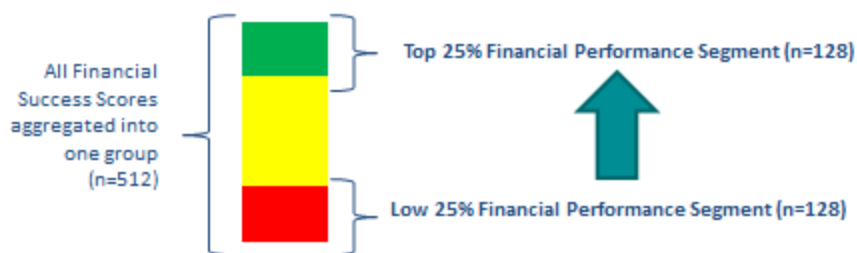
This research establishes that: i) a commitment to training and personal development, ii) utilizing accurate and detailed reports from financial systems for decision-making and iii) utilizing business advisors are key drivers of farm financial success. Analysis of adoption rates for each of these activities is included in this report and demonstrates that farms within the Top 25% Financial Performance Segment are more likely to have adopted each of these activities.

The research identifies seven business management activities that, when adopted, are drivers of farm financial success. That is to say that these activities are more likely to be present on financially successful farms and/or more likely to be absent on less financially successful farms.

1. **Propensity to Continually Learn**
2. **Business Decisions Made with Accurate Financial Data**
3. **Use of Professional Business Advisors**
4. **Use of Formal Business Plan**
5. **Cost of Production Monitoring and Use**
6. **Risk Assessment and Management**
7. **Use of Financial Plan with Budget Objectives**

It is these activities that need to be focused on by the Low Performers to ‘push’ or ‘drive’ them to the top.

³ Poultry and Eggs demonstrated a significantly higher proportion of farms receiving a higher Financial Success Score



Due to the unbiased design of the Farm Financial Success Score, these drivers are present across all farm types and commodity groups.

While it is impossible to isolate farm business management activities from all other factors (weather, management style, commodity prices, etc.), it is evident that the Top 25% and Low 25% Performance Segments (based on Financial Success Score) have dramatically different financial situations.

Research Result 5: Proof that the Drivers are related to Desirable Financial Outcomes.

Because the driver analysis was designed in a way to identify the drivers of converting farms from the Low 25% Performance Segment into the Top 25%, it can be said that the business management activities identified as key drivers are playing a role in driving financial success among the most successful Canadian farmers.

		Value	Industry Rating	Percent Change
Asset Turnover	Top 25%	20.0%	Moderate	100% ↑
	Low 25%	9.7%	Vulnerable	
Gross Margin Ratio	Top 25%	50.0%	Moderate	155% ↑
	Low 25%	19.6%	Vulnerable	
Return on Assets	Top 25%	10.0%	Strong	525% ↑
	Low 25%	1.6%	Vulnerable	

Overall, management matters. The results of this research clearly show that adoption of business management activities is related to farm financial success. In comparing the top and bottom quartiles of Canadian farms, there are significant differences in financial performance.

The top producers financially out-perform by a wide margin:

- 525% increase in ROA
- 155% increase in Gross Margin ratio
- 100% increase in ROE
- 100% increase in Asset Turnover

Top Habits of Top Performers

1. A commitment to learning

- Farms in the bottom quartile are 3 times more likely to not seek out new information, training or learning opportunities.

2. Using detailed financial information for decision-making

- Farms in the bottom quartile are 3 times more likely to have financial records that are months behind and not used on a regular basis for decision making.
- Farms in the bottom quartile are almost 3 times more likely not to monitor cost of production and use it for benchmarking and management decisions.

3. Using business advisors

- Farms in the top quartile are 30% more likely to work regularly with a trusted farm business advisor, or team of advisors.

4. Striving to meet Long Term Vision

- Farms in the top quartile are almost 50% more likely to have a formal written business plan that is reviewed and updated annually.

APPENDIX A: FINAL ONLINE QUESTIONNAIRE

EMAIL INTRODUCTION

Dear _____

Ipsos Agriculture & Animal Health invites your participation in a web-based survey with Canadian farmers exploring the relationship between business management practices, farm financial health and success. This survey is being conducted on behalf of the Agri-Food Management Institute and Farm Management Canada; two organizations who focus on providing farm business management solutions for Canadian farmers.

The survey will take about 15 minutes. If you qualify and participate, you will receive a \$20 honorarium upon completion of the survey. Findings from this study will be confidential and analyzed in aggregate to ensure Canadian farmers have access to farm business management resources and training to ensure long-term success of Canadian agriculture.

Please note that we will be asking you for some very basic farm financial measures, including gross farm sales, cost of goods sold, total farm debt and total farm assets. Some farmers we have pre-tested the survey with have found it easier to look up some of this information prior to completing the survey. Be assured that all of the financial information we are asking for is farm-related and we are not looking for any personal financial information.

To complete the online survey, please click the URL below, or copy it into the address/location bar of your internet browser. Once at the website please enter your access code.

LINK: xxxxxx

ACCESS CODE: xxxxxx

In the event that you cannot complete the survey in one sitting, the data will be saved automatically. You will be able to return to the link and continue where you left off using your Access Code.

The survey will be available over the next week or so. However, you might want to participate as soon as possible, since the website will close after most have completed the survey.

Your participation is very important to us! Thanks again for your time and input. It is much appreciated.

If you have any questions, or experience any technical difficulties with the survey, e-mail: research@cfr.misn.com (So we will be able to better assist you, please reference project Ipsos XXXXXX and your Access Code.)

Thank you in advance!

Ipsos Agriculture & Animal Health

Questionnaire Introduction

Thank you for your interest in our survey. As mentioned in the email, this is a survey about planning practices and farm finances. We will be asking you overall questions related to your farm business including gross farm sales, cost of production, farm-related debt and asset levels. Are you the most appropriate member of your household to answer questions on these topics relating to your farm business?

Yes

No [TERMINATE]

Great! Let's get started.

SCREENER

SC1. To confirm, are you a primary decision maker for your farm operation specifically as it relates to business and/or financial decisions?

[LIST – SINGLE PUNCH]

Yes , I have sole responsibility

Yes , I share responsibility

No, I am not responsible [TERMINATE]

Not Applicable [TERMINATE]

SOURCES OF INCOME

SC2. Which of the following types of farming or production contributed to your gross farm sales last year, 2014? (SELECT ALL THAT APPLY).

[LIST – RANDOMIZE]

Grains and oilseeds – including corn, soybean, wheat, barley, oats, canola

Pulses

Edible beans - such as navy, kidney, black, otebo, adzuki

Potatoes

Greenhouse Vegetables/Floriculture

Nursery

Field vegetables

Fruits, including apples, berries, grapes, tender fruit

Hay and Forage

Other crops (SPECIFY) eg. Small seeds, ginseng, sugar beets, tobacco, mushrooms, spice crops, and maple trees tapped)

Swine

Beef feedlot

Beef Cow-calf

Dairy Cattle

Poultry, including broiler chickens, turkeys

Eggs

Sheep

Goats

Veal

Rabbits

Other livestock (SPECIFY) e.g. Mink, fox, bison, llamas, ostrich, fish etc.)

No single majority/Mixed livestock

No single majority/Mixed crop

Other

[IF AT LEAST ONE OF FOLLOWING SELECTED CONTINUE, OTHERWISE TERMINATE: Grains and oilseeds, Pulses, Edible beans, potatoes, greenhouse Vegetables/Floriculture, Nursery, Field vegetables, Fruits, Hay and Forage, Swine, Beef feedlot, Beef Cow-calf, Dairy, Poultry, Eggs,]

[AUTOFILL SC3 IF ONLY ONE SELECTED IN SC2]

SC3. And of the crops and livestock, what is your main farm type or that which contributed most to your gross farm sales last year, 2014? If your farm operates on a fiscal year that is different from the calendar year, please think of 2014 fiscal year.

Please select only one.

[LIST – ONLY SHOW THOSE SELECTED IN SC2]

Grains and oilseeds – including corn, soybean, wheat, barley, oats, canola

Pulses

Edible beans - such as navy, kidney, black, otebo, adzuki

Potatoes

Greenhouse Vegetables/Floriculture

Nursery

Field vegetables

Fruits, including apples, berries, grapes, tender fruit

Hay and Forage

Other crops (SPECIFY) eg. Small seeds, ginseng, sugar beets, tobacco, mushrooms, spice

Crops, and maple trees tapped)

Swine

Beef feedlot

Beef Cow-calf

Dairy Cattle

Poultry, including broiler chickens, turkeys

Eggs

Sheep

Goats

Veal

Rabbits

Other livestock (SPECIFY) e.g. Mink, fox, bison, llamas, ostrich, fish, etc.)

No single majority/Mixed livestock

No single majority/Mixed crop

[IF AT LEAST ONE OF FOLLOWING SELECTED CONTINUE, OTHERWISE TERMINATE: Grains and oilseeds, Pulses, Edible beans, potatoes, greenhouse Vegetables/Floriculture, Nursery, Field vegetables, Fruits, Hay and Forage, Swine, Beef feedlot, Beef Cow-calf, Dairy Cattle, Poultry, Eggs,]

[PLEASE CATEGORIZE AS THE FOLLOWING]

- Grains and Oilseeds (including corn, soybean, wheat, barley, oats, canola, edible beans, hay, forage and silage, pulses)
- Horticulture (including fruit trees or berries, field vegetables, potatoes, greenhouse and nursery)
- Swine
- Beef cattle (including feedlot, cow-calf)
- Dairy Cattle
- Poultry and eggs
- Other crops **[TERMINATE]**
- Other livestock [including sheep, goats, veal, rabbits, other livestock] **[TERMINATE]**
- Mixed Livestock **[TERMINATE]**
- Mixed Crop **[TERMINATE]**

SC4. Would you be willing to tell us your total gross farm sales for 2014, please be as precise as possible)? Please include any program payments in your gross farm sales estimate:

[VALUE RANGE: 0-999,999,999]

Don't Know/Refuse

[IF DON'T KNOW/REFUSE, TERMINATE]

[IF LESS THAN \$10,000 TERMINATE]
[ONLY WANT N=50 OF FARMS BELOW \$50,000]

SC5. What province are you located in?

[SINGLE PUNCH]

British Columbia

Alberta

Saskatchewan

Manitoba

Ontario

Quebec

New Brunswick

Nova Scotia

Prince Edward Island

Newfoundland and Labrador

SC6. Please indicate your age.

<18 [TERMINATE]

18-24

25-30

31-40

41-50

51-60

61-70

71-80

81+

SC7. Which of the following best describes your farm business income as it relates to your household?

[LIST]

It is my only source of household income

It is my most significant source of household income

It is not my most significant source of income

Master Questionnaire Begins

Congratulations, you have qualified for our study. The study will take approximately 15 minutes. Once completed, you will receive your cheque for \$20 in approximately 4-6 weeks.

Throughout the questionnaire we will be asking you questions about your “farm business”. By “farm business” we mean any and all aspects of your farm, farming operation and associated businesses. Please think of all the things that contribute to your gross farm sales, farm-related assets or liabilities.

1. Which types of products do you sell from your farm business? Select all that apply.

[LIST]

Commodities/bulk products
Value-added products including on-farm processing
Direct to consumer or farm gate products

2. Next, I have a few questions about your farm business. Which of the following best describes the current status of your farm operation? (SELECT ALL THAT APPLY)

[LIST]

I am just getting my farm business established
I am maintaining my farm business at a steady level
I am expanding my farm business
I have started to reduce or scale down my farm business
I plan to sell my farm business or exit the industry in the near future
I plan to transition my farm business or go through the process of succession

3. Which of the following best describes the ownership structure of your farm business?
(SELECT ONE ONLY)

[LIST]

Sole proprietorship
Partnership without a written agreement
Partnership with a written agreement
Family owned corporation- including corporations with one shareholder
Corporation with non-family investors
Other (SPECIFY)

4. Approximately how many of the following types of employees do you have for your farm business?
Please include employees that work in any aspect of your operation, including family members, other partners in the corporation and yourself.

[RANGE 1-999]

Full time family members
Part-time family members including seasonal or temporary employment
Full-time non-family members
Part-time non-family members including seasonal or temporary employment
Full-time non-family members

[CANNOT MOVE ON UNLESS AT LEAST ONE IS SELECTED]

Management Activities

You will now be asked a series of questions regarding management activities on your farm business.

These will include questions in the following management areas:

- Business Management and Planning
- Financial Management
- Marketing
- Human Resources Management
- Risk Management
- Succession Management

[BUSINESS MANAGEMENT AND PLANNING]

5. Using the scale from 1 to 10 below, how would you rate your farm business as it relates to having a clear vision or idea of the future of your business 5-10 years from now?

[Scale - ROWS]

10 – We have a well-developed and clear vision for the future of the farm business.

9
8
7
6
5
4
3
2

1 – We do not have a clear idea for the future as there are too many uncertainties

6. Using the scale from 1 to 10 below, where do you feel your business rates when it comes to having a formal plan for your farm business?

[Scale-ROWS]

10 – We have a written business plan and review and update it at least once per year.

9
8
7
6
5
4
3
2

1 – We have not developed any kind of business plan for our operation.

7. Using a ten-point scale, where do you feel your business rates when it comes to communicating your plans and direction to those involved in the farm business?

[Scale-ROWS]

10 – Everyone involved (partners, employees, family, stakeholders) is aware of and understands the direction and plans for the business. Regular farm team meetings are used to keep the team on track.

9

8
7
6
5
4
3
2

1 – We have not communicated our plans and direction to staff/stakeholders and do not have regular meetings.

[FINANCIAL]

8. On a scale of 1 to 10, please indicate where you feel your business rates when it comes to the level of detail that you receive from your accounting system for business decision-making.

[Scale-ROWS]

10 – Our financial information is up to date, accurate, and accessible to our team AND we use it for timely decision making.

9
8
7
6
5
4
3
2

1 – Our financial reports are often months behind so we do not use them on a regular basis.

9. Please indicate the degree to which your farm business has a financial plan with budget objectives for each area of your business, using the 10-pt scale below.

[Scale-ROWS]

10 – We have a budget of revenues and expenses for each different product, department or area of our business that is reviewed on a regular basis.

9
8
7
6
5
4
3
2

1 – No. We do not have a budget.

10. To what extent do you calculate, record and monitor your cost of production in order to make management decisions? Please provide a rating from 1 to 10 using the scale below:

[Scale-ROWS]

10 – We calculate, review and monitor our cost of production for every production cycle and use it for benchmarking purposes and management decisions.

9
8
7

6
5
4
3
2

1– We do not monitor our cost of production.

11. How would you rate your ability to read, evaluate and understand the financial statements for your farm business? For example, your balance sheet and/or income statement? Please provide a rating from 1 to 10 using the scale below:

[Scale-ROWS]

10 – I have an in-depth understanding of how to understand financial statements.

9
8
7
6
5
4
3
2

1– I have a limited understanding of how to understand financial statements.

12. Please rate your financial risk management using the 10-pt scale below.

[Scale-ROWS]

10 – We have a structured approach to financial planning to ensure we have sufficient operating capital to withstand changes (e.g. interest and foreign exchange rate changes), to seize opportunities and/or to improve our balance sheet ratios.

9
8
7
6
5
4
3
2

1– We tend to manage our finances in terms of short-term bills and obligations.

[MARKETING]

13. Please rate your process for planning your production using the ten-point scale below. Please provide a rating from 1 to 10 where

[Scale-ROWS]

10 - We regularly monitor changes in the markets, current and future prices, yield potential, past results and profitability. We use this information and make production decisions accordingly.

9
8
7
6
5
4

3
2

1 – We do not have a structured production planning process.

14. Please rate your market/price risk management for products, using the 10-point scale below.

[Scale-ROWS]

10 – We follow the markets closely and take a methodical approach to our marketing. We have a written marketing plan which includes pricing goals and targets.

9
8
7
6
5
4
3
2

1 – We try to follow market trends and get good prices, however, we don't use market risk management tools or have a specific plan.

15. Please rate your relationship with other members of your supply chain, including both your suppliers and customers using the 10-point scale below.

10 – We have a collaborative relationship with both suppliers and customers and share business information to seize opportunities and meet emerging needs.

9
8
7
6
5
4
3
2

1 – We function as independent businesses with limited information sharing and almost no collaboration.

[ONLY ASK HUMAN RESOURCE MANAGEMENT PLAN IF FARM HAS EMPLOYEES IN Q5]

[HUMAN RESOURCE MANAGEMENT SECTION]

16. Please indicate where you feel your business rates in terms of your human resource management.

[Scale-ROWS]

10 – We have developed a formal human resource management plan, including details for all roles, responsibilities, performance reviews and compensation. It is reviewed regularly.

9
8
7
6
5
4
3

2

1 – We do not have a formal human resource management plan. We hire as we need to and deal with issues as they arise.

Not applicable to my operation

[RISK]

17. Please rate how you assess and manage risks that could affect your farm business. Please provide a rating from 1 to 10.

[Scale - ROWS]

10 – We are proactive in assessing potential risks to the farm business and use formal risk management programs and tools, written processes, contracts and/or operating procedures to manage those risks.

9

8

7

6

5

4

3

2

1 – We respond to risks as issues arise.

18. Based on the 10-point scale below, please rate your risk management as it relates to major unanticipated life events (ex. death, divorce, disability, etc.) that could affect a farm business.

[Scale-ROWS]

10 – We have discussed and have a written contingency plan to deal with issues such as divorce, death, disability, disagreement and/or disaster; it is reviewed and updated when major changes occur.

9

8

7

6

5

4

3

2

1 – We will deal with these issues if they arise. We do not have time to plan for events that may never happen.

19. Please rate your environmental risk management, based on the 10-point scale below.

[Scale-ROWS]

10 – We tend to be among the first to adopt environmental best management practices and are constantly looking for ways to lessen the environmental impact of our farm business.

9

8

7

6

5

4

3

2

1 – We believe we follow accepted industry production practices, but don't tend to be the first to adopt environmental best management practices.

[ONLY ASK Q21 IF LIVESTOCK OPERATION IS SELECTED IN SC5]

20. Based on the 10-point scale, please rate your animal welfare risk management.

[Scale-ROWS]

10 – We have reviewed the Codes of Practice for our industry and know we are compliant with the most up to date practices.

9

8

7

6

5

4

3

2

1 – We believe we follow accepted industry animal welfare practices, but are not sure if we are compliant with the Codes of Practice for our industry.

[SUCCESSION]

21. Please indicate where you feel your business rates in terms of your succession or transition planning process and plan for business continuity.

[Scale-ROWS]

10 – We have developed a formal written succession plan addressing the transfer of management and ownership that has been communicated to family members and/or those involved in the farm business.

9

8

7

6

5

4

3

2

1 – We do not have a written succession/transfer plan even though we probably should have one.
Not applicable to my farm business

[OTHER MANAGEMENT ACTIVITIES SECTION]

22. On a scale of 1 to 10, please indicate how you use farm business advisors, coaches and consultants (e.g. for business planning, financial planning, succession planning, conflict resolutions and communications).

[Scale-ROWS]

10 – We have a trusted farm business advisor or team of advisors that we work with to review the business on a regular basis and ensure our activities are meeting our strategic objectives.

9

8

7
6
5
4
3
2
1

1 – We do not use farm business advisors on a regular basis.

23. Please indicate your propensity to move forward, and continually improve through training and new knowledge using the 10-point scale below.

[Scale-ROWS]

10 – I actively seek new information and opportunities for learning and skills development across a wide range of areas that help me improve my skills.

9
8
7
6
5
4
3
2
1

1 – I attend training sessions only when required.

FARM FINANCES

The last section of the survey will ask you a few more questions about your farm financials. In particular,

- cost of goods sold
- total farm debt
- total farm assets

Please remember that all of the information provided is strictly confidential, will be used for research purposes only and will only be reported on in aggregate.

24. What were your production-related expenses in 2014?

Examples of production-related expenses include: fertilizer, seeds, crop protection materials, feed, animal health products, replacement animals, production-related labour, custom-work, trucking and/or production insurance for the entire farm business in 2014.

25. What is the market value of your total farm assets (including land, buildings, inventory, equipment, quota)?

You can answer below in the aggregate, or by asset if it is easier for you.

TOTAL Farm Assets: (Value \$0 - \$99,000,000) _____

Total Farm Assets

Land and Buildings: (Value \$0 - \$99,000,000)

Inventory: (Value \$0 - \$99,000,000)

Equipment: (Value \$0 - \$99,000,000)

Quota: (Value \$0 - \$99,000,000)

TOTAL: [AUTOSUM]

26. What is the amount of total farm debt you have? We are interested in farm-related long-term debt, not operating credit (or short term debt) and not personal debt. _____
27. You mentioned earlier that your gross farm sales in 2014 were [INSERT VALUE FROM SC6]? What amount of that income was derived from program payments? By program payments I mean any payments from AgriStability or other government programs.
28. To what extent are you comfortable with the debt level of your operation? On a scale of 1 to 10, 1 being not at all comfortable, to 10 being completely comfortable, where would you rate yourself?

[SCALE - ROWS]

- 10 – Completely comfortable
9
8
7
6
5
4
3
2
1 – Not at all comfortable

29. Lastly, relative to five years ago, which of the following best describes the financial health of your farm operation?

[SCALE]

- Much better
A little better
The same
A little worse
Much worse

[Ask Q30A if they answered much better/a little better in Q29]

Q30A: What has contributed most to the improvement? (PROBE TO UNDERSTAND WHY).

[OPEN-END]

[Ask Q30B if they answered a little worse/a lot worse in Q29]

Q30B: What has contributed most to the decline? (PROBE TO UNDERSTAND WHY).

[OPEN-END]

Thank you message



Ontario

Canada