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# Enterprise Budgets

A Decision Tool That Works in Farm Management



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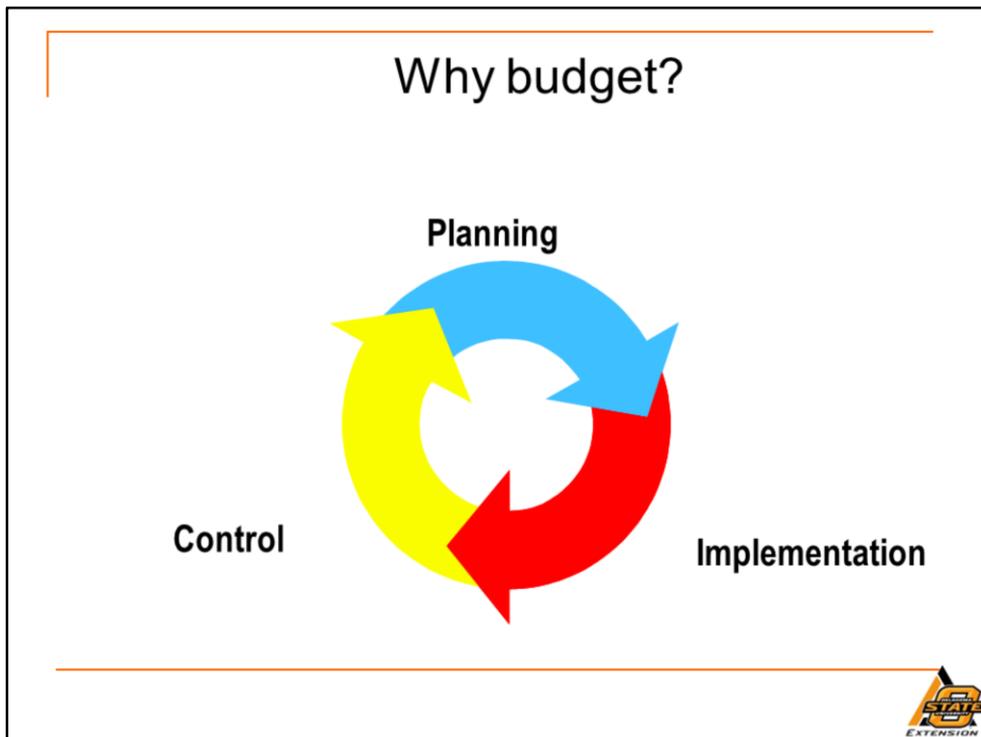
Investing in a farm is often very expensive and can be financially stressful. One way to reduce that stress is to use enterprise budgets. It's a key component to a business plan and can assist the beginning producer evaluate the feasibility of a proposed venture and helps established producers identify areas for improvement. Budgets are a powerful management tool that can help the producer make the right decision by taking some of the guesswork out of farming. In this session, we'll discuss how enterprise budgets can work for you.

## Enterprise Budget defined....

- An **Enterprise Budget** estimates the full economic costs and returns expected to accrue to a production activity – raising livestock, producing grain or forage – for one year.



An enterprise budget estimates the full economic costs and returns projected to accrue to an activity - raising livestock or producing grain - for some period, generally one year. Enterprise budgets incorporate information about the specific resources, management practices, and technology used in the production process. A detailed budget includes a production goal, the production techniques to be employed, the land resource required, and even something about the capital and labor requirements. They can help provide a decision framework for examining both short- and long-range economic analyses of production agriculture.



Budgets are part of a continuous farm management process. Budgets can help examine where you've been, where we are at now, and how do we move forward.

**When it comes to farm and financial planning: budgets should be**

- 1<sup>st</sup> step in working up a business plan. Budgets will help
- Evaluate options before you commit resources
- Test economic and technical feasibility of different alternatives (different enterprises, different production systems)
- Estimate profits and the size of farm needed to earn a specified return
- Uncover cost that you may have not considered

**Implementation of the farm plan, budgets can help**

- Apply lessons learned
- They can show you how to better organize and reorganize your operations
- Understand the production and financial risks and whether they may be managed

**When it comes to the control phase, it's all about monitoring your progress..**

- Budgets can help you see if you are headed in the right direction by comparing projections to actual results. Great way to reduce unpleasant surprises.
- In summary, budgets are part of the continuous management process that helps

producers make sound decisions grounded on reality and not just emotion.

## Budgets Can Help with “What-ifs”

<b>Management change</b>	<b>Impact</b>
10% $\Delta$ in yields	\$? per acre
10% $\Delta$ in fertilizer cost	\$? per acre
\$1 $\Delta$ in fuel price/gal	\$? per acre
10% $\Delta$ in herbicide cost	\$? per acre
$\Delta$ market price by \$1/bu.	\$? per acre
<b>Total</b>	<b>\$? per acre</b>



Although “best estimates” should be used to develop budgets for planning purposes, it is important to remember that projections are influenced by production and price uncertainty. Often, everything doesn’t proceed just as you planned it. Budgets are a powerful risk management tool when it comes to examining how changes in your operation can impact profitability and liquidity. Budgets help provide insights as to whether you can stand the price and production risk in your operation.

Small changes can really add up and impact your bottomline....

## Summary: Enterprise Budgets...

- Organize and document projected income and expenses for production activity
- Determine whether your time, capital, and management is worth it.
- Compare actual vs. planned at regular intervals to catch problems
- Can help you focus on financial management while you are working on production performance.



First step with your business plan.

Whether that combo is the best fit on the farm.

Help monitor and keep track of any emerging problems before they get out of hand.

Many times you can make the most money from right behind your desk.

## Don't Get Stuck in the Mud! Use those Budgets!



Because....successful managers discover that life is a whole lot easier controlling risks and saving money through budget planning. A producer interested in being profitable should expect to do no less.