

Business IQ: Management Factors Critical Questions for Crucial Conversations

Farmer Checklist	Your Score	Green (3 points or 4*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production		Written	In head	No idea
2. Knows cost of production by enterprise		Written*	In head	No idea
3. Goals - business, family, & personal		Written*	In head	No idea
4. Record keeping system		Accrual	Schedule F (one & done)	No idea
5. Projected cash flow		Written*	In head	No idea
6. Financial sensitivity analysis		Written*	In head	No idea
7. Understand financial ratios, break evens		Written*	In head	No idea
8. Work with advisory team and lender		Yes*	Sometimes	Never
9. Marketing plan written and executed		Yes	Sometimes	Never
10. Risk management plan executed		Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget		Yes*	Sometimes	Non existent
12. Written plan for improvement executed & strong people management		Yes*	Sometimes	Non existent
13. Transition plan/Business Owner plan		Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses		Yes	Sometimes	Never attend
15. Attitude		Proactive*	Reactive	Indifferent
Total				

***Extra Points:**

- **Progressive Business** may receive 4 points for #2,6,7,8,14
 - **Struggling Business Attempting Turnaround** may receive 4 points for #3,5,8,11,12
 (See pg. 2 for Progressive and Attempting Turnaround definitions)

Score	Overall Analysis
35-50	Strong management rating & viability
20-34	Moderate risk & viability; will most likely show previous refinancing
<20	High risk & lack of long term viability

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Progressive Business Characteristics

To be considered a “Progressive” Business, farms must score in the green in four of these five checklist items (#2, #6, #7, #8, #14).

- #2 **Know cost of production by enterprise:** Know the cost of production by enterprise and are able to readily explain which enterprise is the most profitable.
- #6 **Financial sensitivity analysis:** Know how changes in price, production, cost and/or interest rates affect the bottom line. Complete different scenarios in their cash flows to test this for their business/operation.
- #7 **Understand financial ratios:** A dashboard of financial ratios (5 to 7 ratios) that they do a 3 to 5-year trend analysis on their business? Second, benchmark these ratios to other businesses like the Illinois FBFM or University of Minnesota’s FINBIN.
- #8 **Work with an advisory team and lender:** Establish an advisory team consisting of a lender, crop or livestock consultant, and possibly a financial planner, etc. If so, do they meet 2 to 4 times a year?
- #14 **Educational seminars/courses:** Attend or take five educational seminars or courses a year. One should be outside of the industry of agriculture.

Struggling Business Attempting Turnaround Characteristics

To be considered attempting a successful turnaround, farms must score in the green in four of these five checklist items (#3, #5, #8, #11, #12)

- #3 **Goals-business, family & personal:** Written business, family and personal goals.
- #5 **Projected cash flow:** Completed a cash flow.
- #8 **Work with an advisory team and lender:** Exhibit willingness to be coached by an advisory team and lender.
- #11 **Modest lifestyle habits, family living budget:** Take modest family withdrawals and have a family living budget.
- #12 **Written plan/business owner plan:** Developed and executed a one-page written plan on how they will improve cash flows, profits and what is the likelihood of the turnaround of business. If not, problems can continue.

After completing the Business IQ: Management Factors Scorecard

What are three areas in your business that you will continue and three areas for improvement?

3 Areas to Continue

- 1 _____
- 2 _____
- 3 _____

3 Areas for Improvement

- 1 _____
- 2 _____
- 3 _____