



Has monitoring of financial objectives improved with improved technology?

Kellogg Rural Leadership Programme

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Executive Summary

New Zealand farmers have often looked to adopt technology to use in their farming business to increase productivity. The use of technology throughout the entire farm business has increased as modern day farming techniques become more complex and large scale investment in the rural sector increases.

Sheep & beef farmers in New Zealand have benefited from recent sustained increased returns. This report focuses the Tararua and Wairarapa regions as a sample of New Zealand sheep and beef farmers who, like the rest of the industry, have the opportunity to utilise the increased returns to achieve their financial objectives.

Historically, budgeting and monitoring of financial objectives amongst sheep and beef farmers has been low. Using a survey of rural professionals and farmers, the aim of this project was to investigate whether financial monitoring has improved with improved technology.

When analysed, the data quickly showed monitoring of financial objectives had not improved. The barriers to technology - use identified in the survey by rural professionals, could be seen as barriers to financial monitoring as much as technology. Subjective barriers such as fear of technology seems to be a defence for lack of financial knowledge or a perceived shortfall in some areas of financial knowledge. Time was disregarded as a direct barrier, as programmes that are available today are quick and easy to use. Therefore, time issues were considered a lack of defined return on investment for the time invested.

A number of recommendations have been made as part of this report. These included:

- Encourage farmers to investigate ways of bringing technology into their financial monitoring in a way that fits their approach.
- Rural professionals to put financial considerations as the first issue in succession plans.
- Farmers to set small goals that fit within the larger financial objectives so that the sense of achievement is realised along the way.
- Farm businesses identify and monitor critical financial performance measurements that are important to them and their individual goals.

Introduction

A study conducted in 2014 (Elliot & Wakelin 2016), spanning the 2011 to 2013 seasons, showed that the Top 5 % of operators from the survey had an Economic Farm Surplus averaging \$883 per hectare compared to an average of \$459 per hectare for the mid-tier. The survey also pointed to the fact that top-performing farmers that had a much keener focus on their operations made the best returns, and consequently, this was where they focused efforts. A key factor in driving profitability was thorough planning, efficiency and monitoring (Elliott & Wakelin 2016).

Like many sheep & beef farmers in New Zealand, farmers in the Tararua and Wairarapa regions have been recipients of sustained increased returns on the back of improved commodity prices following a period of poor returns to the industry. Beef + Lamb New Zealand's economic survey for the East Coast of the North Island illustrates this with a 38% increase in Gross Farm Income for the provisional 2016/17 result compared with the 2008/09 season.

This increase in revenue, along with historically low costs of funds, should result in farmers furthering their financial and farming goals. However risks such as commodity prices and severe weather events as well as the gathering clouds of *Mycoplasma bovis* and centrally directed environmental constraints still threaten these returns.

New Zealand farmers have commonly been innovators and have a long history of eagerly developing and adopting technology for improve farming practices to meet their needs. This adoption, identified as improving their bottom line, is usually employed over a short timeframe and becomes mainstream and widely accepted as the norm. An example of this is the invention and wide ranging adoption of the electric fence.

With the acknowledged increased returns seen latterly in the sheep & beef sector, this project will focus on whether farmers in the Tararua & Wairarapa regions of the east coast of New Zealand have embraced improved technology as they have historically, to improve their monitoring of financial objectives. This monitoring is necessary for farm owners and managers to take advantage of returns and help mitigate many of the risks to their businesses.

Aims and Objectives

Modern day farming is a business involving large scale investment and increased options in complex farming techniques. Assessing farm management systems and mitigating risks to this investment through monitoring of financial objectives is as important as ever.

As the role of technology in farming techniques increases so does the role technology plays monitoring financial objectives when employing these techniques.

The main objectives of this report are to:

- Determine base data of farm owners and managers that budget and monitor financial objectives
- Determine the impact technology has had on farm budgeting and monitoring of financial objectives
- Examine the main perceived obstacles to successful monitoring of financial objectives
- Identify critical financial performance measurements for profitability

Methodology

Farmers in New Zealand have a long history of innovation and adopting technology for use on farm. Working for a bank in the rural sector, I often see farmers and farm managers developing their properties and identifying areas or equipment where increased on farm spending in technology is required to make tasks more efficient. The main purpose of this project is to answer the question: Has this investment in technology also been made in terms monitoring of financial objectives?

Due to the differing opinions of farmers, it was necessary to set a framework of the parameters of a budget and what monitoring of these budgets is.

For this report, the attributes of the term, budget was defined as:

- Completed by the farmer i.e. not by accountant etc.
- Budget is not mandated by their bank or other
- Income and all costs defined for each month
- Seasonal funding requirements identified for each month

- Full livestock reconciliation with numbers sold and price per head

Monitoring of financial objectives was defined as:

- Budget and livestock reconciliation updated with actual livestock sales and income as well as livestock purchases and costs on a monthly basis
- Adjustments made to the remaining budget to allow for monthly sales and costs discrepancies
- Know where all bank facilities are drawn to at any one time

Due to the infeasibility of surveying the entire sheep & beef industry in New Zealand it was decided that this project and report would concentrate on sheep & beef farmers in the Tararua & Wairarapa regions as a sample of the wider target population. Situated on the east coast of the North Island, these farming districts stretch from Norsewood in the north to Cape Palliser in the south. Both regions comprise a wide range of farm types and sizes and bound the Pacific Ocean to the east and the Ruahine and Tararua Ranges to the west.

The research revolved around rural professionals and two discussion groups, of which one each are in the Tararua and Wairarapa districts. It was important to involve rural professionals (six bank agri managers and four accountants) as they work with their farming clients over a wide range of ages, physical and financial ability and debt levels. The total client base of the rural professionals was 452 farmers and the total of farmers surveyed was 47.

Of the discussion Groups one was based in the Tararua district and one based in the Wairarapa. Both groups consisted of 12 farmers and the survey questions to the discussion Group members were as follows and differed slightly from the survey questions to the rural professionals

In order to provide suitable answers the survey has been divided into five strands or components. Each is designed to align with one or more key questions as shown in Table 1.

Table 1: Research components investigated in relation to key survey questions asked

Research Component	Key Questions
A. Base data on levels of budgeting and monitoring of financial goals	Rural Professionals 2, 4 & 5 Farmers 1, 3, & 4
B. Use of technology when completing and monitoring budgets	Rural Professionals 3 Farmers 2
C. Barriers to using technology	Rural Professionals 6 Farmers 5
D. Difference between top performer and bottom performers	Rural Professionals 7 & 8

The survey conducted was divided into two parts. The primary use of the data collected was utilised in a qualitative approach and will attempt to give usable statistics focused on the four research components in Table 1. The second part of the survey asked the opinions of farmers and rural professionals that will be used, along with published articles, to add some comment and ‘flesh out’ numerical data.



Figure 1: Typical hill country in Tararua & Wairarapa regions (Source: Author)

Literature Review

The value of using digital technology for farm paddock record keeping

Wayne May, Kellogg Rural Leadership Programme, 2015

Introduction

Written as part of the Kellogg Rural Leadership Programme in 2015, this report investigated the current 'in paddock information gathering systems' and what was required to get farmers and a large - rural supplies business to change to a technology - based information storage system.

The data for this report was collected by surveying four different mixed farming businesses. The questions asked in the survey covered what system they were currently using and the effectiveness of this system. The report also attempted identify the barriers to the uptake of technology. Part of the report was dedicated to a case study of a large scale dairy farm using a cloud based system for all in paddock information, such as size and historical data such as crops grown in paddocks and spays used.

Discussion

The main relevance of this report was in the examination of the barriers to technology uptake and the impacts of technology - use on a farm business. The responses gave validity to some of the barriers to technology - use I see in my role with the Bank. In his report May identified the effects of poor record - keeping and the frustrations of manual paper based records. The main results of manual notebook recording, as undertaken by 75% of his survey respondents, was poor knowledge of historical spray use, crop rotation and fertiliser applications. Further issues with this method of record keeping was incomplete paddock histories, limited details and what information that is available is inaccessible by other companies or difficult to convey to contractors.

May also highlighted the number of different platforms currently being utilised in the industry. The fact that they all operate under their own operating systems and the need for standardised information from outside agencies that all systems can recognise and upload.

Differing systems used by different providers was particularly relevant to this report as there are several different platforms available to monitor financial objectives. All these platforms

use different operating systems and require some amount of manual uploading and although not a barrier to uptake, it is often a frustration.

Financial budgeting in sheep & beef businesses

Sam Orsborn, Kellogg Rural Leadership Programme, 2009

Introduction

Orsborn's report investigated the levels of budgeting in sheep & beef businesses. Orsborn interviewed both financiers and farmers to get a broad overview of the industry and was able to rank his results into expert budgeters, budgeters and non-budgeters. His results highlighted that a very low level of 35% of farm businesses were budgeting in some form in 2009. The report then discussed the benefits of budgeting in terms of aiding farm profitability and highlighted some of the barriers to financial budgeting. These included lack of training in different budgeting programs, perceived lack of time and fear of technology.

The relevance of Orsborn's report was important in the fact that it gave a snapshot of budgeting trends at the time and discussed the barriers to budgeting. While the base information helped with the outline of this report, the barriers to budgeting were of most interest. The barriers identified in Orsborn's report centered on the use of one particular computer programme, and what knowledge the user required to operate this system. This focus tended to be on functional issues such as lack of training in budgeting programs and time and disregarded barriers to technology that are more subjective, including age and education, although it is understandable why Orsborn kept the focus functional as the scope would have been too broad.

Summary

Both reports gave a good insight into historical use of technology for record keeping and budgeting and also provided useful base information on the barriers to the use of technology. However, both reports tended to be focused on functional issues rather than subjective barriers. While understandable, due to the broad subject matter, an acknowledgement and investigation into whether subjective issues such as age of farmers and financial knowledge is required in this report.

Both reports lacked clear guidelines of critical farm performance criteria that would be achieved if their recommendations were employed.

Findings

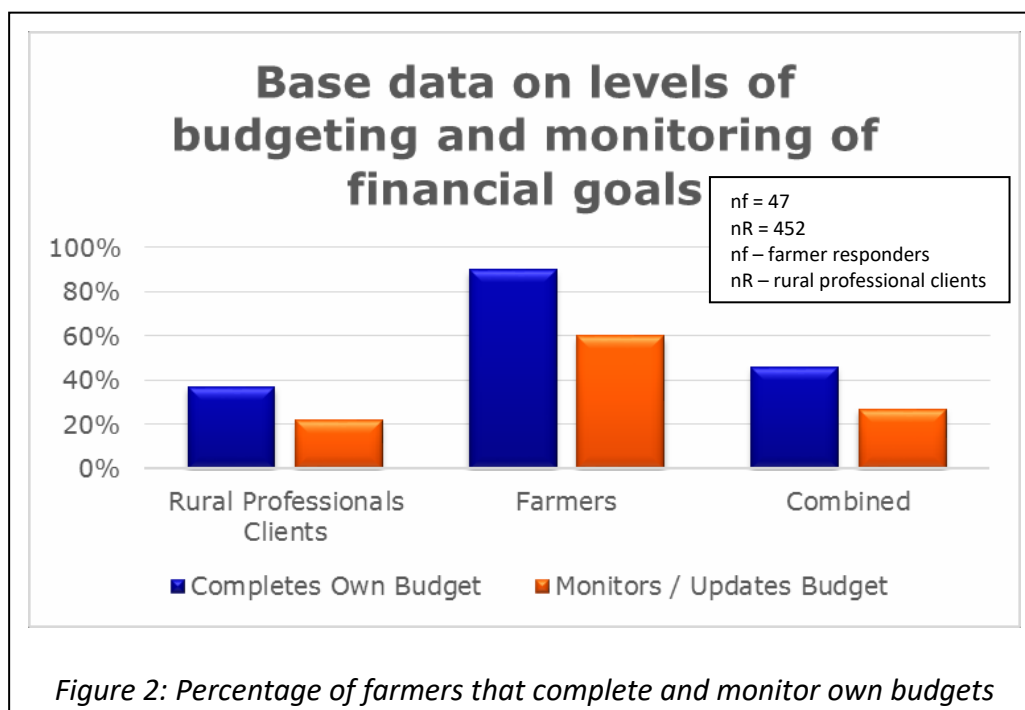
Base data on levels of budgeting and monitoring of financial goals

The first purpose of the survey was to ascertain how many farmers complete their own budget without any prompting and how many monitored these budgets, treating them as a 'living document.'

Figure 1 shows that a low 37% of clients of rural professionals produce a budget while 90% of the farmers surveyed complete their own budgets.

The difference in the percentage of those who budgeted between the two groups was large and can be explained due to two different factors.

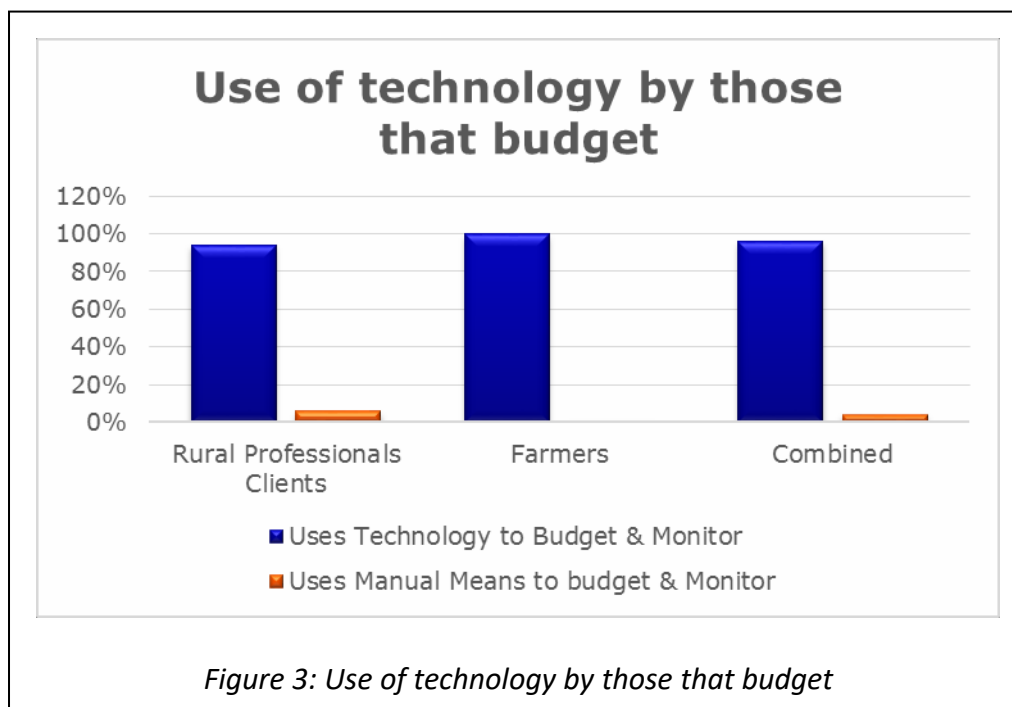
Rural professionals have a large client base that is diverse in terms of age, physical and financial ability and debt levels. This diversity is important and gives a good snapshot over a large group of people. The second factor identified, was that members of the two discussion groups are considered better performers in the industry and "look to stretch performance through budgeting (Tararua Discussion Group Member)". Because it is a narrow group of high performers, it stands to reason that there would be a high level of budgeting.



Regular monitoring / updating of budgets totalled 27% between the two groups. This is perhaps the most concerning of figures as it shows that although a farmer may complete a budget, over half of them will not monitor or update these budgets therefore making them redundant.

Use of technology when completing and monitoring budgets

Of those who do complete budgets and monitor their financial objectives, the majority of farmers use computer programmes to do so (Figure 2). This includes farmers who utilise Excel to design their own budget to prepare & monitor their financial performance. 100% of discussion group members budget & monitor using computer programmes. This is again due to the fact that they are higher performers as well as tending to being younger in age. Those who don't use a computer programme to budget utilise an 'old fashioned' cashbook ledger.



Barriers to using technology

The questions in the survey about barriers to using technology were limited to the rural professionals' opinions about their clients. This was to get an attitude to technology over a broader number but to also get an unbiased opinion of ability.

The survey gave the respondents some prompts that have been identified whilst working for the bank as well as barriers identified by May (2015) and Orsborn (2009). There was also opportunity to give further information on any barriers that the rural professional had identified.

The prompts included subjective concepts that required the rural professionals to think about the financial literacy of their clients and are their opinions. There was also an option to discuss this further and give their own ideas.

Difference between top performers and bottom performers

Again limited to the rural professionals to get an unbiased opinion of performance, Figure 3 clearly shows, the top 25% of rural professionals' clients budget and monitor more than the bottom 25% of clients. While the results are not unexpected the number of clients who were budgeting and monitoring in the bottom 25% was. This points to a lack of financial understanding especially in critical financial performance measurement that makes the process of budgeting and monitoring a valuable asset to a farm business.

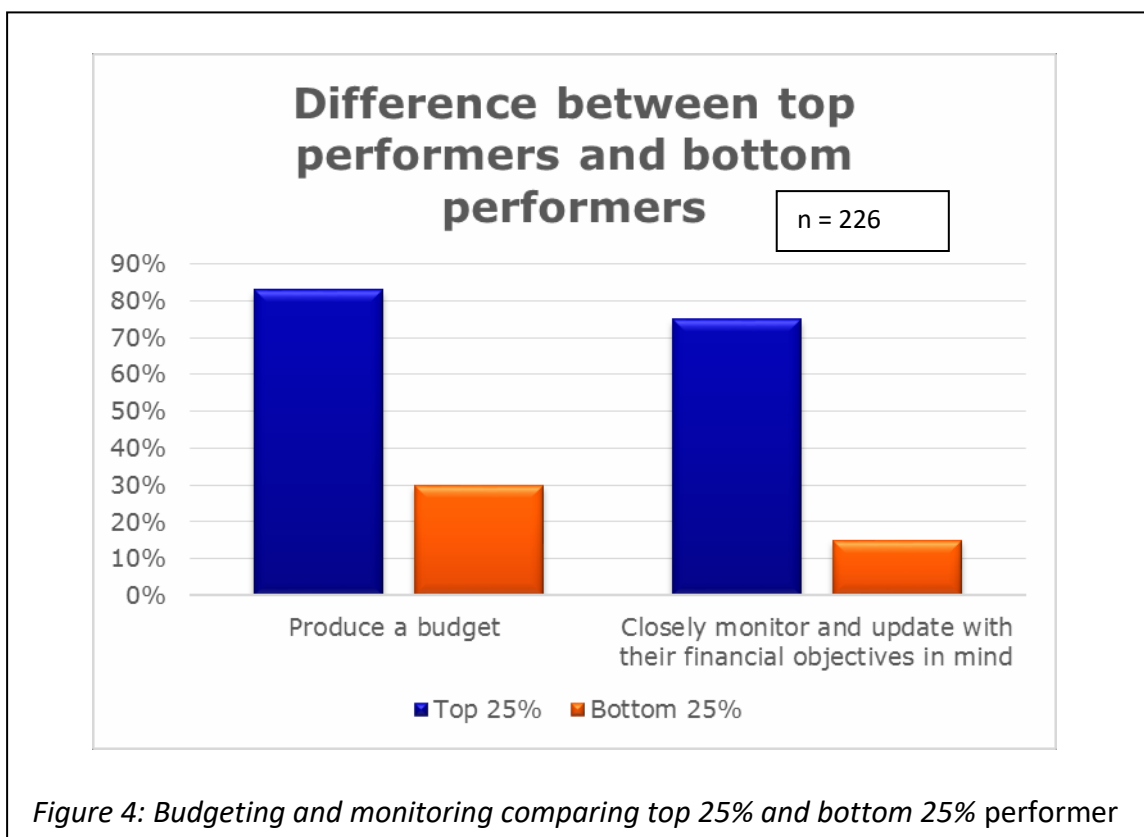


Figure 4: Budgeting and monitoring comparing top 25% and bottom 25% performer

Discussion

Orsborn (2009) conducted a similar survey of Wairarapa sheep & beef farmers and ranked farmers into three separate categories, expert budgeters, budgeters and non-budgeters. In his report, the statistics indicated that only 35% of farmers budgeted in any way and while his results were not used as base data for this report, it gave a very good indication of level of budgeting at the time.

Some nine years later data collected in this survey shows that 37% of rural professional's clients completed a budget. This figure is a slight increase in Orsborn's although these values are somewhat indicative due to the sample sizes collected for this report and Orsborn's. Having said that the results are not unexpected as this is the same trend as seen in my role as a rural bank manager.

While the percentage of rural professional clients and farmers who budget is 46% combined, this must be taken in context due to the smaller survey population the higher performing discussion group members had a real effect on the results.

Overall the question of 'Has monitoring of financial objectives improved with improved technology' has been answered as **NO!**

Although farmers have always demonstrated a good understanding of the benefits that financial monitoring has on greater profitability (Orsborn 2009) and the barriers to financial monitoring have been well documented, the opportunities to improve monitoring of financial objectives through training and improved technology have not been taken up by farmers.

The benefits of budgeting and monitoring of financial objectives have been witnessed in this project. Of the rural professional's top 25% performing clients, 83% produce their own budgets and 75% of them regularly monitor these budgets while the bottom performing 25% are far lower with 30% budgeting and 15% monitoring. This would clearly indicate that by budgeting and regularly monitoring financial objectives, financial performance improves. As shown in the bottom 25% of performers however, the results also show that budgeting alone does not improve financial performance and the need for farmers to recognise the "critical financial performance measurements for profitability" is important and will be discussed further in this report.

The survey also noted that 100% of respondents from the discussion groups used a computer programme to budget and monitor. The difference from these results and the base data can be explained by two main factors. Firstly the discussion group members are higher achieving (or are striving to be higher achieving) farmers by nature and secondly they are younger in age and more agreeable to computer systems.



Figure 5: Tararua Discussion Group (Source: Author)

Barriers to using technology

The survey included a question as to what are the barriers or reasons that clients don't use a computer programme to budget or monitor financial objectives. This was limited to the rural professionals' opinions about their clients. As mentioned previously, not only this was to get an attitude to technology over a broader base but to also get an unbiased opinion of farmers' ability.

Functional barriers to technology - use in farm businesses have already been identified by Orsborn (2009) & May (2015). This report focused on subjective issues and asked what role fear or lack of skill using technology and lack of financial knowledge played as a barrier to budgeting and monitoring of financial objectives.

The biggest barrier identified by rural professionals was a fear of technology with the second being a lack of financial knowledge. This report has accepted that this is something that may not change in the short term. It has identified some underlying reasons and a process for change in the long term, as well as identifying critical financial performance measurements for profitability. This will aid improvement of financial knowledge so the significance of financial monitoring is more recognised in farm businesses.

Age and farm succession

Age is a major factor when discussing fear of technology. The average age of a New Zealand sheep & beef farmer is 55 years (Stats NZ) and a number of older farmers have often been farming the same property for a significant period of time. As discussed previously, younger farmers adopt computer program - use more readily with many older farmers either set in their current ways of using manual means to budget and monitor (cashbooks). Furthermore, a farm owner who has owned a property for a long time often has management policies in place where income and costs vary marginally year to year so that budgeting is often done in their head, and monitoring is done by looking at their bank balance at the end of the month. A number of older farmers are also in a financial position where budgeting and monitoring is somewhat redundant due to low debt levels.

It could be asked how these farmers evaluate their decisions? Management policies for these farmers have been developed over a long time and often as a result of adversity such as high interest rates and drought. Any change has often been tried before and failed.

As a farmer looks to move off farm for retirement, the survey data would suggest that the number using some form of computer program for their financial needs should increase as the younger generation succeeds (takes over) the farm. However this is dependent on the form of succession that is undertaken and the focus of knowledge transfer.

Working in the rural banking sector I have been part of a number of farm succession endeavours and witnessed significant variances in the transfer of financial knowledge from one generation to the other. In most cases knowledge transfer of physical management of the farm is foremost with financial responsibilities and training taking a 'back seat.'

Most succession plans involve the transfer of knowledge over an extended period and include rural professionals who have an input into this process. With succession often involving a financial transaction in some form between the parties, the knowledge transfer needs to include a greater focus on the financial aspect. Transfer of the correct financial information and financial processes are imperative and the role of the rural professional is to ensure bad financial habits are not being transferred, financial information is correct and not 'coloured' by the existing generation or that financial skills, knowledge and understandings are not lost in the transition period (Hicks, Sappey, Basu, Keogh & Gupta, 2012).

Lack of defined return on investment

New Zealand has a long history of investing in technology to meet their farming practice needs. Usually intended at on farm practices, it is adopted when the technology is identified as improving a farmer's bottom line. Some examples of this in New Zealand are aerial top dressing and the use of motorbikes on farm. Automated technology is not the only example of on farm investment where a financial benefit is realised. Developments such as subdivision of paddocks for better grazing management, animal breeding techniques and targeted fertiliser development for pasture growth all add to the bottom line.

Investment in technology on farm is not only monetary as it requires an investment of time in implementation and monitoring (Kuehne, Llewellyn, Pannell, Wilkinson, Dolling, Ouzman & Ewing, 2017) but because the returns for on farm investment are directly measurable, the return on financial investment and investment of time can be readily calculated.

Defining the return on investment in technology and time is more difficult when discussing budgeting and monitoring financial objectives. The easiest equation to measure the benefits of budgeting & monitoring is to calculate all savings including management, human, technical, economic & financial, risk, and institutional aspects of a particular farm business. If the annual cost of monitoring these savings is lower than the monetary investment in technology, including the value of time for implementation, then the return on investment is positive. This positive result is enhanced by regularly monitoring the resources available, the potential and the constraints so that plans can be adapted as reality diverges from the expected or opportunities arise (Ferris & Malcom, 1999).

Many investments by a farmer in their business is to increase productivity and therefore profitability, allowing farmers to achieve their goals. These goals can vary from a person wanting to be the 'best farmer' to those that are farming for a good lifestyle (Fairweather & Keating, 1990). It is the achievements of these goals that is almost impossible to quantify in dollar terms as it is a measure of satisfaction at achieving a set goal and a feeling of progression but often these achievements, no matter the size, are valued more by the farmer than any monetary value that can be placed on them.

Critical financial performance measures for profitability

In any business the formula to profitability seems simple, spend less than you earn. But what are the key objectives and measurements that all farmers should be recognising in terms of monitoring their financial objectives?

1. Concise stock reconciliation with a standard value given to livestock on hand: Retentions or liquidation of livestock on hand has an overall impact on a business's capital position. When taken in isolation, the cash performance of a business can be misleading. For example, if a business makes a cash surplus but sells all stock at a lower price than its standard value, then its capital position has deteriorated. A concise stock reconciliation can also give the ability to derive revenue adjusted for livestock i.e. Cash income +/- stock movements at standard values.

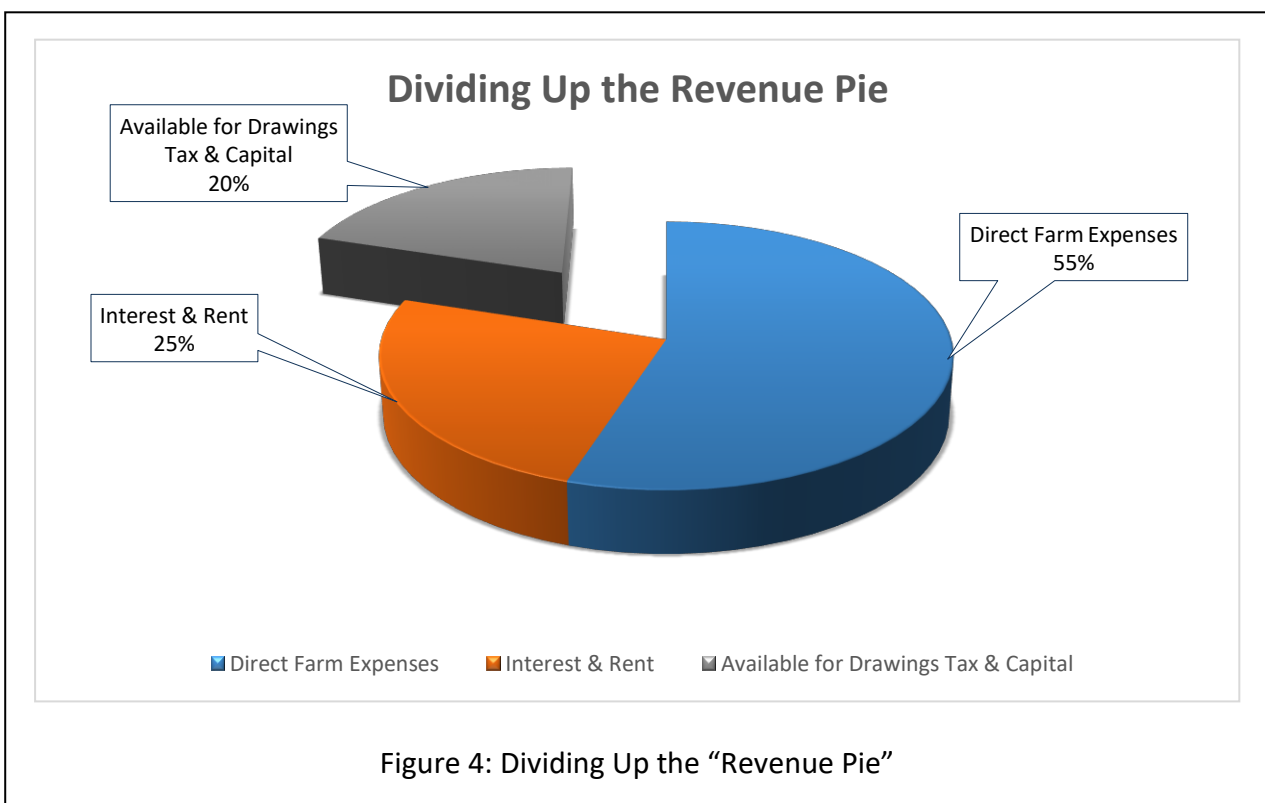
2. Revenue. How big is the pie?

Revenue is best calculated as productivity multiplied by price. Often in farming the price received for a product is unable to be influenced by the producer, with the greatest influence on price received being climate, product availability, commodity prices and exchange rate. Therefore, the only real influence the producer has on revenue received is productivity i.e. number, weight and quality of product leaving the farm gate.

3. Expenses and interest & rent. What's left of the pie?

Revenue less direct farm expenses as well as interest and any farm lease, is a good indication of how a business is performing. The result of this calculation gives the net result or Earnings Before Tax and Remuneration and Capital. If this result when taken

as a ratio of income is over 80% then you start to enter the “misery index.” When direct farm costs and interest & rent exceed 80% of revenue, then the slice of the pie available for a farmer to pay themselves, tax and replace plant & equipment becomes smaller. As this slice gets smaller and smaller the higher on the misery index a farmer sits (P. Alexander, 2014).



Time was disregarded as a barrier to using technology in this project as systems and programmes that are available today are “quick, easy to use and provide real time feedback” (Orsborn, 2009). Farmers will set aside time for physical work, some of it disliked, as these are seen as drivers to profitability (Orsborn, 2009). So if the programmes themselves are not the concern, time issues should be considered as a lack of defined return on investment for the time invested.

Summary

It became clear early on in the project that improved technology has had no impact on farmers monitoring financial objectives. So if improved technology has not improved monitoring of financial objectives are other factors the issue behind the low financial literacy and monitoring of performance?

As the level of investment in the rural sector has increased and farming systems become more complex so has the focus on financial monitoring. The barriers discussed in this report could be seen as barriers to financial monitoring as much as technology. Lack of skill using technology seems to be a defence for lack of financial literacy or a perceived shortfall in some areas of financial literacy.

As time goes on the use of technology may increase with a younger, more technology - advanced farming population but the population as a whole needs to be aware of the return on investment monitoring the correct financial performance measurements will give them. This return could be measured in monetary terms but is more likely to be in the achievement of their goals which are harder to quantify.

Recommendations

The main recommendations of this study are:

- **One size does not fit all:** Encourage farmers to investigate ways of bringing technology into their financial monitoring in a way that fits their approach. This could be as simple as an individual designing an excel spreadsheet that makes sense to them.
- **Finance first:** Rural professionals to put financial considerations as the first issue to be considered in succession plans and ensure bad financial habits are not being transferred, financial information is correct and not 'coloured' by the existing generation or that financial skills, knowledge and understandings are not lost in the transition period.
- **Goals to achievement:** Farmers to set small goals that fit within the larger financial objectives so that the sense of achievement is realised along the way.
- **Performance measures that are important:** Farm businesses identify and monitor critical financial performance measures that are important to them and their individual goals.

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Appendix 1 Questions to Rural Professionals

The survey conducted with the rural professionals asked them the following questions in relation to their clients.

1. How many clients do you have?
2. As a percentage how many clients produced a budget (not Bank mandated)?
3. On what (how) were these presented? (E.g. Cashmanager Rural, Xero etc.)
4. How many of your clients update / monitor their budget monthly
5. As a percentage how many clients produce a budget because they have to and do nothing with them?
6. From the reasons below, what are the barriers or reasons that clients don't use a computer programme to budget or monitor financial objectives?
 - Fear or lack of skill using technology
 - Lack of financial knowledge
 - Do budget & monitor but do it using manual resources (cashbook etc.)
 - No requirement as debt levels versus business size are minimal
 - Other
7. Of your most successful clients (top 25%) how many
 - Produce a budget (not Bank mandated)?
 - Closely monitor and update with their financial objectives in mind?
 - On what (how) were these presented? E.g. Cashmanager, Xero etc. Cash Manger
8. Of your poorer performing clients (bottom 25%) how many
 - Produce a budget (not Bank mandated)?
 - Closely monitor and update with their financial objectives in mind?
 - On what (how) were these presented? E.g. Cashmanager, Xero etc.

Appendix 2 Questions to Discussion Groups

1. Do you complete your own budget?
2. How or on what system are these completed?
3. Do you update with actuals monthly?
4. Do you make changes to your budgets after updating?
5. Do you use a computer programme to budget & monitor performance?
6. Does this influence your on farm decision making?
7. At any one time during the year do you know what your financial position is (includes livestock on hand)