

Farming With Choices

How Successful Do You Want To Be?

Most dairy farming businesses have multimillion dollar levels of both capital and cashflow and yet have no formal planning process in place to drive success. The choice to have a disciplined approach to planning is down to you, the business owners.

Why wouldn't you want to be as successful as you possibly could be? Don't use lack of time or expertise as an excuse. It takes less time to be efficient and effective than it does to be the opposite, and expertise is readily available. In truth, most don't see the need, don't know where to start, or are too busy dealing with the "here and now" to worry about their dreams and aspirations.

The recently announced lift in Fonterra's dairy payout has now given most dairy farmers a choice, which can pose quite a dilemma. The risk is it could open the door for poor decision making due to the lack of a strategic plan.

Background:

From June 2008 through to now, some farmers have had no choice. They have been forced into survival mode due to lower payouts and lower asset values.

They have had to cut expenditure to the bare minimum. Plant and machinery investment has been curtailed, repairs and maintenance has been cut back to below sustainable levels, and in extreme cases investment into the productive areas of their farming businesses have been pruned.

In 2008 and 2009 there was little or no cash left for debt repayment. As I have said, in many cases it was purely about survival. So in a low payout, tight credit environment, many farmers have farmed without choices.

As the payout started to lift through 2009 and 2010 any surplus cash was targeted for debt reduction. Unfortunately some adverse farming conditions throughout the Country have resulted in lower production and higher cost inputs to achieve it.

So even up to now, the choices have not been too difficult. "Only spend what you have to and put the rest into debt repayment". This has been the catch phrase over the last 12 months.

What to Do With A Higher Payout?

With this season's higher payout, and Fonterra's signal that the current gains are already flowing through to next year, the vast majority of dairy farmers will have a financial choice to make.

Experience tells me having a choice can result in good and bad decision making. Experience also tells me history does in fact repeat. Those with a track record of good decision making will continue to do so. Those with a poor record are in danger of repeating past mistakes.

But it doesn't have to be like that. I would stress to everyone that now more than ever is the time to take a disciplined and structured approach to planning. Those who are good decision makers can make even better ones, and the poor decision makers will start to make better ones. So it doesn't matter who you are, there are benefits to planning. That is assuming you want to be as successful as you possibly can be.

Clarity Around Purpose and Vision:

The first step is to work out what it is you are trying to achieve within your business and why. Ask yourself the question: "other than making money, what is the purpose of our business"?

Then build your vision of your ideal farming business.

I know there is plenty of time for thinking. Some tell me they do it while putting cups on, others in their tractor and some while they lie awake in bed. That might be an efficient way of thinking, but it is not an effective way of thinking and/or communicating. There is a big difference between efficient and effective.

You will be far more effective sitting around the table discussing it with your other stake holders in a formalised meeting. Get pure clarity around your purpose and don't deviate from it. And then build your vision.

To achieve your vision you then need a plan. Your financial plan is only one part of it, but as I have said now is the time to focus on it.

Your Financial Plan To Achieve Your Vision:

You will have conflicting priorities or choices. How much do you pay off your debt, how much goes into plant and machinery, how much goes into repairs and maintenance, how much goes into growing your business? The choices are endless and conflicting.

An undisciplined, ad-hoc and re-active decision making process will not allow you to make the best of the looming situation. The danger is that when the payout turns again, or expenses rise, your business will be no better off, and it's back to the survival mode.

My suggestion is to work out your contingency and wish list for the next 3 years.

When I talk about contingencies I mean the essential things that need to be completed over the next 3 years. For example, do you need an effluent upgrade, do you need to buy shares, will you need to replace a major item of machinery, and/or do you have to reduce debt.

Your wish list is simply the nice to have, and will add value, but is lower priority.

Update this year's budget, have a stab at the next and following year's budget. Yes! Budget almost 2 ½ years out. I suggest a similar payout for next year and a lower payout the following. Factor inflation into your costs, a rise in interest rates and get some good tax advice.

Then start to cashflow your contingencies, including debt repayment. How does your bank position look in May 2013? What would your break even payout position be at that point? Now start to cashflow your wish list. How does that effect your 2013 position and what would your break even payout be then? Based on that information what do you want to do, assuming of course you have the choice?

The final step is to continually update your budgets as information becomes clearer. No matter how good you are, you will not be able to accurately predict production, income and expenditure over the next 2 ½ years. But that doesn't mean you shouldn't do it.

As your position changes, you can choose to add or subtract from your wish list. But that is a decision made based on good financial understanding of where you are at in relation to your vision, and not influenced by a glossy brochure or a slick salesman.

With clarity around vision, planning and a disciplined approach to monitoring and review, it will surprise you what you can achieve.

But that depends whether you want to get the absolute best out of your business and be in control, or do you want to settle for something much less. The choice is yours.

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