

FINANCIAL ILLITERACY IS OKAY WITH THE RIGHT SUPPORT

Pulling in your financial advisers to play the right role depending on your financial skill level will elevate your decision making and business outcomes.

Words ANNE LEE

If numbers and managing your finances don't come naturally to you or it just seems like a chore, that's okay, but don't put your head in the sand and pretend you've got the financial aspect of your farming business covered.

BDO accountant and advisory partner Frazer Weir says the most important aspect of managing your finances is being honest with yourself when it comes to your skill level, your desire to build those skills and how much time you want to spend working with the numbers.

"Our farming businesses are becoming more and more complex and having a good handle on your financial position is important, but that may mean different things for different people.

"When I look at our client base, I have three groups of clients and how I work with each group is quite different.

"The first is the group of people who love numbers. They live and breathe financial statements and budgets, they are in their accounting and business software all the time, they update their budgets so they have a full, live cashflow, they focus on their balance sheet and they love it."

He sees his role with them as challenging them, testing some of their assumptions to make sure the numbers are right, monitoring their key performance indicators (KPIs) against the progress they want to be making, being a sounding board and having the searching discussions.

"That group of people can sometimes see their accountant as only necessary to run their tax calculations so they're being tax efficient and prepare their accounts for that purpose, but there's value for them in having those higher-level financial discussions to make sure they're on track for the goals they set."

The second group covers the majority of people, he says.

"They're the ones who really run the business very well. They do the GST returns, they have good clean sets of financial statements and accounts, they are in their budgets and monitoring them but, ultimately, they don't really know how to read the information and see what it's telling them about the business.

"Those clients need someone to work with them who can turn the information into a language they understand so it

better informs their decisions and they can use it to run their business.

"For every client, the way we do that can be different too because people learn and take that information on in a variety of ways. Some people like bullet points in an email with a bit of added narrative around it; others want a conversation as well as a report.

"Farmers should be asking for it in whatever form suits them best. With the software we have now there's no shortage of data, the whole world is awash with data points, but it's about interpreting that data and putting it into a meaningful form, otherwise people can feel like they're drowning in it – especially those who are in that second group."

They're the people who will benefit from courses and added explanation, because in each interaction they will be taking the learning on board and building on their skills to improve their financial literacy.

The third group of people are those who hate numbers and just don't want to spend the hours needed on a regular basis to manage their accounts, do their GST or get in behind the workings of their financial software.



LEFT Frazer Weir. RIGHT Bringing a team in around you can provide governance direction too.



"It's a chore and they struggle – and that's okay – providing they recognise that and are truthful about it, because then they will be the ones who get the administrator in to pay the bills and do the GST and keep the software up to date."

The big risk for a farm business, be that a contract milker or a farm owner, is if they're not fully transparent about that.

likely those in group two) build an understanding of how their spending is tracking and what they're spending money on, giving them more insight into their budgets. They'll see problems earlier.

The belts and braces for those outsourcing their financial admin work will come from their accountant or farm adviser, Frazer says. Those professionals

cashflow decisions are based on inaccurate data and the decisions are the wrong ones."

People in group three can be just as good as people in group one and two at spotting an opportunity, being hungry to grow their business and being driven, but the quality of their decision making will be dependent on whether they've pulled people in around them with the financial skill sets they're lacking.

"What we see in every group is those who do have a good understanding of the numbers – whether they've got there themselves or they're using their accountant to translate and deliver that information – are then asking, 'How do we use this to drive our business?' And that's where they're using it in a governance sense and getting people around them for those governance discussions.

"They'll be different depending on what stage of life they're at and what their goals are, but understanding the financials is a critical point of those discussions. It might be about succession and stepping back and getting equity out of the business, or it could be about making the next step from a contract milking job.

"Quality financial information empowers those discussions and decisions. Understanding your return on asset for instance will help you to understand if taking on more debt in the business is a smart idea."

Frazer says people from every group need to seek out financial advisers to be on their team who understand the business of farming and expect more from them than preparing accounts for tax purposes. ●

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FRAZER WEIR

BDO accountant and advisory partner

"Building financial literacy is great, but at the end of the day, if numbers don't come naturally to you then just work to your other strengths and put a team around you to take that on," says Frazer.

Farm and accounting software now makes it easy for an administrator to be based anywhere and have access to the information from farm suppliers to keep accounts up to date and do the GST.

"It's not that long ago someone had to physically come to the farm and key in the information from paper invoices. That's not necessary now. AI (artificial intelligence) is also being built into systems now so that more and more things are automatically coded."

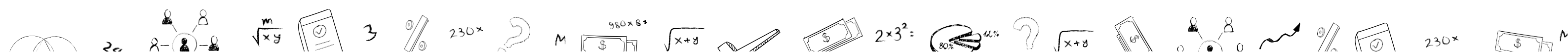
Those who manage their monthly accounts and do their own GST (more

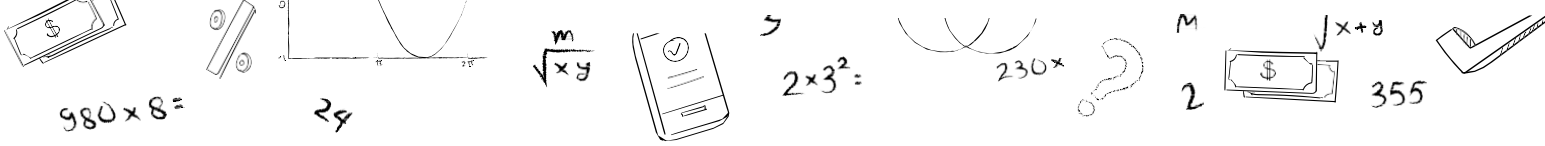
need to be part of the team and are vital to ensuring the farming business is on track.

Being able to manage the cashflow, keep an up-to-date stock reconciliation, manage the outgoings but also the income side of the business by forecasting advance payments and stock income are all essential.

"If that's not your strength, get someone on your team who does that. The worst thing you can do is put your head in the sand or say, 'Oh no, I feel silly getting someone in to help with the admin,' and then sit in the office for five hours every night trying to do the GST.

"That's no good for anyone, and what's more, you're likely to get something wrong along the way and be left with bad information coming out of budgets, or





FINANCIAL ILLITERACY QUESTIONS



These questions focus on value of financial advisors and the importance of having good financial information in the farming business.

1. What are the three types of farming clients mentioned by Frazer Weir, and how does each type approach their finances?
2. Why is it important for farmers to be honest about their skills and comfort level with managing finances?
3. What can farmers do if they don't enjoy working with numbers or managing their finances?
4. How do financial advisors help farmers who don't feel confident with their finances?
5. Why might it be helpful for farmers to have someone translate their financial information into a way that is easier to understand?
6. What risks do farmers face if they try to manage their finances without seeking help when they're not confident with numbers?
7. How can financial software and AI help farmers keep their accounts up to date without needing to be involved in every detail?
8. What is the benefit of having an administrator help with financial tasks like GST and invoicing on a farm?
9. Why is it important to have an accountant or farm adviser as part of your team if you're not managing finances yourself?
10. How can good financial information help farmers make better business decisions and drive their farm's success?
11. What is one example of a financial decision a farmer might need to make, and how can understanding their finances help them make the right choice?
12. Why do farmers expect more from their financial advisors than just preparing tax returns? What other role do they play in the success of a farm business?
13. What does Frazer Weir mean when he says, "Quality financial information empowers those discussions and decisions"? Can you think of an example where having good financial data would help a farmer make a better decision?

