WHAT GOOD FINANCIAL MANAGEMENT LOOKS LIKE

Successful farming hinges on more than just good soil and weather; it relies on disciplined financial management, from tidy records to strategic budgeting and clear communication.

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A top farmer once told me, "A drive around the tanker track will tell you a lot about a farm." They were right. A tidy, well-organised, well-run farm can be picked out inside the first 200 metres of the farmgate.

In the same fashion, you can pick a business with good financial management by a glance at the farm office desk. Is it tidy and organised, paper records filed, not loosely stacked?

Then you flick open the computer. The cashbook is up to date and reconciling. The budget is being utilised and has an accurate livestock tally.

When you ask a good farming family about their business they can talk to key financial numbers without a flurry of paperwork. They can comfortably answer questions like:

- What is your cost structure per kilogram of milksolids (kg MS)?
- What is your breakeven milk price?
- Which months are tight for cashflow?
- What trading result is expected this season?
- How strong is the balance sheet?

It would be remiss if this article did not pause and reflect on communication of the business plan and financial aspirations. The most important place being at the dinner table. Are spouses talking the same language? Do they work as a team and commit to the same plan? Are the sacrifices needed to progress being shared?

The successful family business will regularly talk about what they are trying to achieve. They know how far away they are from achieving it and agree on what needs to be done to get there.

With the shared dream, good business systems and a clear plan, the successful farming family will communicate well with their advisers and mentors. Business goals are well articulated and progress towards achievement is being monitored.

Then with a clear understanding of what needs to be achieved, direction can be given to the farm team on implementation. Expectations for physical performance are clear. There will be a few simple monitoring points and if the direction of travel is not as planned, an alert will sound.

Milk production falling below target. Farm expenses tracking ahead of the budget. Feed purchases up or inventory building. Unexpected repairs and maintenance costs. All of these will raise flags in a well-managed dairy farm business and bring about prompt and appropriate management responses. Timeliness of well-informed decisions are core to good business management.

TAPPING INTO FINANCIAL EXPERTS

Your accountant, bank manager and farm consultant will be quick to recognise the above. The accountant recognises the clients that are prompt with their annual records and compliance (PAYE, GST, operating consents) reporting. The informed farming client doesn't just have tidy records. They are asking questions of their accountant about insights into financial performance, tax management, and seek their expertise.

The bank manager will see budgets that are connected to reality. There will be searching questions from the client about margins, debt structure and interest rate decisions. Funding requests will come with a clear, well-presented plan of what's required, why and how it will be funded.

For farm consultants, working with clients on business planning, goal setting, budgeting and monitoring is the "day job". But the clients who really lead in business, the top 10%, will have pre-prepared the core information. On farm visit day the cashbook is updated and reconciled ready to view. They will have the financial statements and current physical performance written out and ready on the kitchen table. They know what you need before you ask and there will be a written list of questions, essentially an agenda on what they want addressed during the meeting.

With good information comes insight and with insight there is sound decision making. The business-minded farmer will know what good looks like and they will constantly challenge themselves to achieve or exceed the standard.

The sort of financial standards you typically see in a successful dairy farm business are as follows:

Strong cost control. Expenditure is managed and scrutinised. Does this "spend" add value to the business? Is it a "need or a want"? Will the expense represent efficient use of resources or contribute to inefficiency?

Spending will be in tune with productivity. The measure most farmers would be familiar with is operating cost/kg MS. For the astute this will include provision for depreciation and adjustment for labour and change in feed inventory.

Currently a cost structure of $6.50/kg MS is average. But good is a cost structure below $6/kg MS. If costs appear high, it will be because of spending behaviour, farm system design or the absolute costs are okay but, through inefficient management practices, the milk is not being produced.

With good information those who are trying to step up will know what they must do next. What has to change and what are the specific outcomes to be delivered?

When something outside of the prudent operator's control changes, for example milk price or weather, our good farmer will look to the things they can control to buffer the impact. A response to lower milk price might be to contain expenses that don't impact productivity. In a bad season they will look to ensure core functions like mating are not compromised or pastures are not damaged.

A strong business does not always mean "mortgage paid off". Size of debt does not define business performance.

What is happening in terms of debt management is critical.

Debt that is building in an unplanned manner is of serious concern.

That said, debt can be a motivator to perform. Successful farming businesses can operate with high debt, but the balance sheet is improving. Equity is growing by design, not by default.

In summary, good financial performance is more than a number on a balance sheet. It will look like a tidy, well-organised farm office. The conversation is clear, articulate and searching. Questions are being asked. Dreams and goals are in the dinner-time conversation and shared.

The team working with our successful farming business knows what is expected and is clear on what outcomes are required.

Key metrics are known and monitored. If something falls out of line, there will be a timely response. Farm expenditure is disciplined and in keeping with the farm system.

The size of the debt is not important but how it is being managed is.

Ultimately you don't have to drive very far to recognise and hear a good farming family in action. ●

Chris Lewis, managing director, BakerAg.

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Questions

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1. What can you learn about a farm by driving around the tanker track or looking at the farm office desk?
2. What kind of financial information should a successful farming family be able to discuss without needing to look at paperwork?
3. Why is it important for farming families to talk about their business goals at the dinner table?
4. What should the relationship between farming families and their advisers (accountants, bank managers, consultants) look like?
5. What are some of the key financial metrics that a well-run farm should be monitoring?
6. What actions will a successful farmer take if something goes wrong, such as falling milk production or unexpected expenses?
7. How do farmers show they are prepared when meeting with their accountant, bank manager, or consultant?
8. What financial standards should a successful dairy farm meet in terms of cost control?
9. How do successful farmers respond to changes that they cannot control, such as milk prices or weather?
10. Why does the size of debt not necessarily indicate a good or bad farm business?
11. What is the most important thing about managing debt in a farming business?
12. What does good financial performance look like on a farm beyond just the balance sheet?