

Focus on the Earnings Side of Your Business.

We need to go back to the earnings side of our business and away from the asset building side. In other words, go for cash and income generation (i.e. make your true profit) and away from trying to grow our assets and getting free capital gains.

At a recent excellent presentation by Cameron Bagrie, economist for the ANZ National Bank, he gave an objective but very realistic overview of the New Zealand economy and how it might play out in the current world economic rebalancing.

Rebalancing is a word that gives a better and more objective picture than the word recession. So it is rebalancing that is happening after some excellent and protracted good times.

He also highlighted how New Zealand is likely to overcorrect from an overinflated economy. Overcorrection may mean that our dollar will fall lower than is realistic. It may mean that the dairy price will drop below what we would hope. House prices are expected to fall by 20%. What will happen to farm values on the back of a lower payout one might ask?

The message I want to convey here is that while all this correction and rebalancing is going on, we all need to get back to the earning side and make more money or drive more bottom line to our business by lowering input costs.

In the past the banks have been happy to increase overdrafts to meet cash deficits, large holidays, new kitchens, and so on. That was fine while things were good but now they will expect more judicious management of our affairs and more effort to work within our limits.

Why?

Because that is how they now view the world and farming. More importantly they may be short of money themselves to actually lend to us. Put on top of that possible reduced values watering down their security margins which may make the banks even more jumpy.

We farmers are a resilient bunch and the drop in commodity prices will force us all to go back to basics: cash flow and cash profit to pay the bills, the mortgage and feed our families without ever increasing overdrafts.

So that being the case where can we cut costs and how can we make more profit?

If we are going to cut costs always start with the big expenditure items in your balance sheet. Cutting back on phone calls is prudent and will save a little money but tackling the big ticket expenses is where you will get the most traction.

Finance

- Do we have the best interest rates?
- Can we amalgamate expensive debt?
- Can we amalgamate hire purchase etc into the main debt?
- Can we get by with the existing bike or tractor rather than the new one with the h.p.'s and associated monthly costs? And yes, repairs and maintenance may rise a bit but will they exceed the monthly h.p.'s?
- We need to look at discretionary spending. Do we need another trip to Surfers Paradise or can we go without while the kids are still at private school?
- Can we use more lime-based fertiliser to release the already high nutrient level in our soil?
- Could we cut back on cow numbers by 5%? Unit costs would fall. There may be less feed stress and production will probably remain static. This is

called 'marginal rate of return'. Is the last \$100 of cost giving an excess of \$100 in return?

- Whilst always reluctant to discuss high input farming did New Zealand not build its competitive advantage on all grass with some supplements?
- Do the expensive feeds input show a return on reduced payout? If not how do we go back to a more all-grass system and what will the issues be along with the perceived downside risks? I understand there is a dairy farmer who is all-grass (nearly) with only a four wheel drive bike who is topping the profit scale per hectare in New Zealand.

Dr McMeekan wrote the book "From Grass to Milk". Maybe we need to dig it out and read it again.

- Can we get the costs of dry matter back on our purchase feed?
- Can we reduce labour input costs by:
 - being more efficient;
 - using cup removal systems;
 - doing some weekend milkings ourselves;
 - milking 3 times in 2 days or even once a day?

The options are endless. We just have to embrace the changes we need to make. Make a plan and stick to it. If it's going to get rough we may need to restructure and that means cutting early and cutting hard and sticking to it. Working together, supporting each other with a lot more give and take would be most welcome wouldn't it?

Summary

In summary, there is going to be no increases in values for a while, no unearned increments. In fact our values may actually fall. We need to focus on making a profit instead of capital gain.

We need to look at our cost structure and if necessary cut early and cut hard.

We need to engender goodwill with all our support people, our suppliers and particularly our team and work together as we ride out this rebalancing of the economy which is very likely to overcorrect.

Tomorrow the sun will rise as it did today. Your friends will still be there and we will all still get three feeds a day. Don't let the rebalancing do your head in but focus on cash not capital.

These are the opinions of Don Fraser of Fraser Farm Finance. Any decisions made should not be based on this article alone and appropriate professional assistance should be sought.

**Don Fraser is the Principal of Fraser Farm Finance and a consultant to the Farming Industry.
Contact him on 0800 777 675 or 021 777 675.**