

Managing Money in a Difficult Environment

We have probably all spent the last 9 booming years maximising our income and chasing tax free capital gains and not been too bothered about cash flow and profit. We probably thought the more we owned and owed, the better off we would be. I would often get asked why the neighbours had three farms and they only had one. The answer was that they took on more risk and more debt. That faze is well and truly over. Credit is tight, the commodity boom has crashed and many will be licking their wounds.

The point of this story, is a reminder of how to look after our money, to spend as little as possible and keep as much as we can.

“It is not what you earn that counts, its how much you keep” (anon)

As the good times came to an end, some people just kept on spending. Many thought the good times would never end, and I must admit it was a compelling argument at the time. Part of good money management, is taking stock and ownership of your own financial position. Once we have faced the reality, it is just a matter of putting in place some changes and systems to preserve cash flow, reduce expenditure and get the balance sheet right.

When trying to reduce spending attack the big ticket items first

- Wages – We may not replace someone who leaves, we maybe able to do more work ourselves, or maybe we can make the job simpler to reduce labour.
- Can we reduce cow numbers and go back to lower input farming and get the cow to “cut and carry” her own fodder?
- Can we save on fertilizer?
- Can interest costs be reduced? There is an expectation that interest rates might go as low as 5%, that is half what farmers are now paying. This would be a vast improvement and would substantially improve the bottom line.
- Do we really need more gear? Like tractors, farm bikes etc or can we still use the old ones. Can we use ‘farm cars’ and so on. Can we share implements and

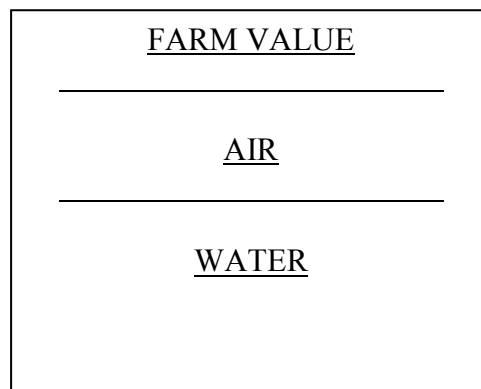
tractors with our neighbours? Many implements sit around all year doing nothing, just to be brought out to do 2 months work. One farmer told me he had 20 petrol / diesel motors on his property. Does this sound familiar? It is. Maybe it is time to go back to the 'old ways' and share things or hire rather than owning everything.

- Are those beef cattle that we love to rear, that are put on leased land really showing a profit? Or are we just dreaming?
- Can we have a meeting with the family, to discuss the tough times and encourage everyone to pause before they spend money? Drawings also come out of tax paid money making it even more important to get a good handle on the money that is going out of the account as personal expenditure
- If it is a 'rough time' the bank will want to see that you are fully focused on your business and what can you do to help yourselves. Some of the things that banks will be looking for are:
 1. An accurate and detailed cashflow that we are going to stick too.
 2. A commitment to lower spending in every area.
 3. Selling off new equipment which has been purchased on impulse and not really required. Often a new car is purchased (makes us feel good at the time) but it is only a temporary feeling, until the payments start to cause a fiscal drag and pain starts.
 4. A clear understanding of what we need to do in our business to make it run more efficiently.
- Getting an outside third person to help manage the business, could be the best decision you could make. Many multi-million dollar farming businesses are run off the kitchen table, with little or no outside help. In town a business will most likely have an accountant, an accounts manager and a general manager and so on. On a farm there this third person can act as the 'bad cop' so that when a purchase is being proposed, you can say, you need to get it approved by the other Trustee. That 'bad cop' or Trustee can say NO and you then have a back stop. That independent third party can help you in the decision making process.
- The bank will want to know, that you know, how tough it is, is and what are you going to do about your business
- Keep your bank advisor in 'your team' especially in these very tough times, because they are crucial to the liquidity and future of your business.

- Careful financial management is about ownership. Ownership of our current financial position, ownership of frivolous spending and ownership of the problems that may / will occur without proper fiscal management.

THE TANK THEORY:

The 'Tank Theory' really puts it all into prospective. Your debt is the water in the tank. The air is the equity. If you keep on increasing the debt, then the water level keeps on rising (less air) then you are going to find it difficult. The trick is to keep as much air in the tank as possible and this can be done by reducing debt and increasing income.



SUMMARY:

- In summary there is more to good financial management than we realise.
- Keeping in good with our Bankers, is very important.
- Maintaining income and reducing expenditure is the only way to go.
- Take a realistic view on your business and watch out for the 'Tank Theory'.
When you run out of air, there is no way back.
- Managing your money in these times is crucial to your own financial survival.

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.

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