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Agricultural Finance and Small Business Management

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Ground Hog Day Game Plan

By: Dr. David M. Kohl

From the other side of the desk, your agricultural lender will face more scrutiny from regulators, review teams, and examiners. A few adverse headlines concerning the future of agriculture coupled with the failure of some large, aggressive customers and agribusinesses such as, machinery, dealers and grain elevators, will tighten credit conditions for agriculture. This contraction will become extremely apparent as producers attempt to review operating lines of credit or refinance past lines of credit due to cash flow shortages. The fast change in financial credit conditions requires an open, forthright relationship between producer and lender. Using Groundhog Day as a timeline in which to work, there are several components of your game plan to assess in order to increase the probability of a successful credit request.

First, do not simply go to your lender requesting money. Recently, in a lending class panel discussion, one overconfident manager informed the group that he merely calls his lender and automatically gets \$3 million in operating monies. He said that he does not even consider numbers like cash flow, balance sheets or scenario testing. In fact, this manager naively stated, "If you got the dirt, you can't get hurt." Well, this manager is in for quite a shock. Unfortunately, members of the younger generation were listening to this rhetoric. Hopefully, they will quickly realize this approach is not a good example to follow. This type of attitude was prevalent during the recent commodity super cycle, but most certainly will not work in today's environment. To present a strong case for credit, one must develop a financial business game plan. It is important to be proactive rather than reactive when working with your lender. As Mick Jagger of the Rolling Stones sings, "time will be on your side," if you adopt this approach. Open communication with your lender will serve you well especially when problems arise or if you encounter a growth opportunity. Use projected, actual, monthly, and quarterly cash flow statements as your tool in working side-by-side with your lender.



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The lender also has an important role in the side-by-side relationship. Good lenders must demonstrate the three “C’s” of lending. Specifically, lenders should be conservative in the positive side of the economic cycle. Next, they need to be courageous in the tough times or the down part cycle. Finally, a good lender must be consistent in both good and bad times. These are essential qualities to find in your agricultural lender.

Next, assess whether your agricultural lender has knowledge of agriculture and of your business. Many new lenders are entering the industry with a non-farm background. Often, they lack familiarity with the dynamics that impact farm income and expenses as well as the cyclical nature of the industry. A successful producer-lender relationship may require education on both sides.

In addition, both the producer and lender must commit to open communication and no surprises. On the producer side, notify your lender before making a capital purchase or utilizing operating monies for a non-operating expense. For the lender, give advanced notice before leaving your current lending institution or the client account. Additionally, should a lender change occur, provide support by offering the producer alternative lender options.

Groundhog Day Game Plan

According to folklore, when the groundhog emerges on February 2nd of each year, the appearance or absence of his shadow forecasts the time remaining until spring. For the producer and lender, this magical groundhog may just cut the time you have left to finalize your game plan. So, start planning now!

First, by the time Groundhog Day comes, have your business, family and personal goals outlined in writing. Be sure to include your spouse or any partners in this process. The confirmation of short and long-term goals including one, three and five year timeframes will enhance the communication process. Conduct this simple process according to the “S.M.A.R.T.” acronym, which stands for specific, measurable, attainable, reliable, and timely goals. This can serve as an extremely useful accountability marker for managers balancing business and life.

Next in your Groundhog Day game plan, develop projected cash flow. Often, people remark to me that projecting cash flow is impossible in today’s volatile economy. Well, in response I recommend scenario planning or “but, what if” analysis to test key pricing, cost, and production outcomes. Monitor this cash flow through a comparison of your projected to actual cash flow in order to amend and adjust strategies and practices.



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Inside cash flow projections, develop a personal living budget. This area necessitates close attention as living expenses have increased dramatically in recent years. Nebraska Farm Business, Inc. record systems found that living expenses and income taxes totaled \$.71 to \$.76 per bushel of corn and \$2.28 per bushel of soybeans. When corn prices were \$6 to \$8 per bushel and soybean prices \$15 to \$18 per bushel, these expectations could be assimilated. However, with the current price of corn and soybeans, a personal living budget it is imperative.

Another element in the game plan is an updated balance sheet with reasonable asset values. Remember to enter in all liabilities including trade accounts or accounts payable in the calculations. Use this balance sheet to develop an accrual adjusted income statement in order to more accurately measure performance.

Finally, with your goals outlined and financial numbers developed, schedule a meeting with your lender and team of advisors. These meetings should take place by daylight savings times in early March. This allows time to review the plans and strategies before implementation.

Even if the forecasting groundhog sees his shadow and postpones spring weather, do not wait to start your crucial planning. Obtaining credit is a changed game. Avoid the outdated rhetoric and mindset of those trying to hold on to past days of the commodity super cycle. Start developing your new game plan now in order to successfully obtain credit and meet your goals for a sustainable, successful future.



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