University of Nebraska-Lincoln Extension in Gage County
Paul Hay, Extension Educator • 1115 West Scott Street • Beatrice NE 68310 • (402) 223-1384
website: http://gage.unl.edu • email: phay1@unl.edu
http://www.facebook.com/UNLExtensionGageCo • https://twitter.com/#!/UNLExtensionGage

MANAGING FINANCIAL RISK IN TODAY'S ENVIRONMENT

Dr. Elizabeth Yeager, Kansas State University Ag Economist shared this information in a recent Kansas Farm Management Association Newsletter. Farmers have seen a decrease in commodity prices throughout the start of the 2016 calendar year. While there is still much to be seen in terms of planted acres this spring and weather throughout the growing season, it is likely going to be another year of tight operating margins and declining crop farm revenue from the peaks we saw just a few years ago. Successfully navigating an era of tight margins requires a renewed focus on key strategies pertaining to the management of financial stress. One of the keys to long-run success in a commodity business is to be a low-cost producer. With declining prices for most crops and livestock, maintaining low costs per bushel and costs per pound is vital and easier said than done. Reducing input cost is about little cuts in every cost area rather than a few major slashes. Rather than focusing our attention on managing the cost side of the business, farmers often focus on increasing volume or revenue. The strategies discussed below represent some items for you to think about both in the short- and long-term as you manage the financial risks faced by your business.

Working capital is the difference between current assets and current liabilities. During the last few years, many crop farms drew down their working capital to purchase assets including machinery, buildings, and land. Now that margins have tightened, a more cautious approach of acquiring capital items; machinery and equipment purchases should be used.

Now is the time to talk to your lender about restructuring your debt. A typical adjustment to reduce cash flow pressures is to negotiate longer repayment terms. Many land purchases over the last decade were made with relatively short-term debt. With strong farm incomes that is not a problem, but tighter operating margins will put a strain on cash flow and make the farm less resilient to financial stress. Longer terms will often reduce cash flow pressures, but remember that the debt must still be serviced and this strategy does nothing to reduce cost or increase income. In addition to extending loan terms, it might be a good time to move any remaining variable rate loans to fixed rate loans in order to reduce the risk of any future increases in the interest rate.

Underutilized assets are particularly costly during times of financial stress. Do you have assets such as storage facilities or livestock buildings that could be rented out? Sharing equipment with another farmer or leasing rather than buying can also be opportunities to effectively increase your asset turnover.

Farm costs fell a little in 2015 and more is expected in 2016, especially feed costs in the livestock sector. As you evaluate and compare the key strategies discussed here, remember that it will be next to impossible to do so without up-to -date financial statements and a marketing plan. It is also critical to have open lines of communication with any lenders and landlords you work with to mitigate issues related to financial stress before they become severe.

For more information e-mail Paul C Hay at phay1@unl.edu, call 402-223-1384, or visit the News Column University of Nebraska Extension local Website: gage.unl.edu, Twitter:@Cloverhay

UNIVERSITY OF NEBRASKA-LINCOLN educational programs abide with the nondiscrimination policies of the University of Nebraska-Lincoln and the United States Department of Agriculture.
EXTENSION is a Division of the Institute of Agriculture and Natural Resources at the University of Nebraska-Lincoln cooperating with the Counties and the United States Department of Agriculture.