

The Business Of Farming: Managing Financial Crises

It is not the situation but what you do about it that determines the future

Mr. Greg Brackenridge, the President of the Bankers Association of Zimbabwe, caused a stir at the CFU congress in Harare two weeks ago when he called a spade a spade. Looking at Zimbabwe in the broader context of the region and international economics Mr. Brackenridge emphasised the need to focus on the economic situation not only as a country but also as individuals. The reality is that the country is in the process of transformation and the fear of transformation must be addressed and recognised.

His comment that the bankers requirements for loans will be considerably more stringent in the future drew scathing comments from the delegates about excessive bank profits and the need for banks to support the farmers. Mr. Brackenridge replied angrily that the banks are in business to make a profit and that farmers are not the only bank customers.

Mr. Brackenridge is correct, the banks do not owe the farmers a living. On the other hand they do owe their clients the courtesy of a fair hearing and not the arrogance of a dismissal letter. There are legitimate complaints on both sides. Some farmers tell me that bankers are not prepared to explain why their loans have been turned down. But the bankers also have their complaints. Yes, they say, the farmers do provide a cashflow budget, but often it has been beautifully prepared by a professional. The first time the client sees it is when he places it on the banker's desk.

To exacerbate the banking problem Parliament's supplementary budget of \$35 billion to fund the ministries of Defence, Health and Education will create upward pressure on inflation and an increase in interest rates. The world will not change just because we wish it would. So let us arm ourselves for the eventuality that the financial situation will worsen.

We can be certain of one thing and that is that farmers will not get special preference over other business people in the economy. Whether we agree or disagree with that stand is not the issue. The real question is how best to position yourself so that you are assured of bank support. Let's put ourselves in the shoes of the lender by asking what we would require from a neighbour who wanted to borrow several million dollars from us? Presumably we would ask:

- Is the business profitable?
- Can the business pay its bills?
- How is the business financed?
- How does this year compare to last year and the year before?
- How does its performance compare to others in the group?
- How does the business compare to the industry norms?
- And finally, if I lend you the money today when will you pay it back and what degree of certainty can I attach to that promise?

There are steps that individual farmers can take to minimise the threat. Urged by Bruce Brown of Mvurwi and Ben Purcell Gilpin of Headlands, I am working with the CFU on a proposal to offer short courses on procedures farmers can adopt. In the interim I offer the following as suggestions for you to consider and to implement. I think you'll agree that they are no more than common sense, but common sense or not, they need to be acted upon regardless of who you are or what you do.

Before we begin remember that finances and economics are different subjects. What one does to overcome a financial problem is different from what one does to solve an economic problem. Economics concerns the profitability of the business while finance concerns the source of money to run the business. . If in doubt please refer back to earlier articles or contact me via e-mail for back copies.

The first requirement is that the business must be profitable. That means that every enterprise must have a positive gross margin and the total business gross margin must be greater than the overheads. Don't trust to luck. Prepare your budgets. If the gross margin is suspiciously low either take steps to improve it or eliminate that enterprise entirely.

Change your production strategies to minimise the negative effect of inflation.

- Avoid cash dependent enterprises or resources.
- Emphasise enterprises that give a fast turnover of capital.
- Eliminate machinery that needs to be replaced.
- Eliminate debt, especially short-term.
- Critically examine your overheads. What steps can you take to decrease them?

I can hear your objections, "How do we know what the prices will be? How do we know if fuel or electricity will be available?" You don't, but you still have to make decisions. Which new enterprise should be added, which one should be expanded or dropped? You can proceed blindly or you can make some reasoned guesses.

While the gross margin budgets project profitability the cashflow budget is the document that determines the short-term solvency of your business. It is vital management tool, but there is no point in working on your cashflow unless you first know that the business is profitable.

Budgets are the minutes of the meeting written in \$\$\$\$. They take time. They require thought and they require decisions. Most importantly they must be done by you. Neither your consultant nor your accountant can prepare your budgets for you. They are the result not the beginning of the decision making process.

So much for budgeting. Now let us turn to mistakes that can be avoided or previous mistakes that may be undone. Many farmers in this country are facing critical financial, as distinct from economic, problems today because they bought capital items or breeding stock on overdraft. Land, irrigation systems, beautiful homes, SUV's, pedigree breeding herds are trappings of wealth. Those items, fixed assets, are items that we mean to keep as distinct from things we mean to sell. However, if your money is tied up in things you mean to keep that leaves no choice but to borrow to produce the things you mean to sell.

If you fall into that category, examine every single asset you possess. Is it earning money? Is the rate of return greater than inflation? Be RUTHLESS, sell it and replace it with an investment that will return more.

It can be done but it does require a business like approach to farming. It requires that you spend time working on the business and not just in it. If you need help please ask for it.

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