

## The Business Of Farming: Why Management?

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

By S. D. Parsons

I have been asked why I write articles about management in these troubled times. After all there are much more serious questions on the minds of farmers (and for that matter any thinking person in the country) at present. True, as we contemplate the future, we are all concerned not only about the land issue and invasions by war veterans and what The Herald euphemistically calls “rogue, or fake war veterans” – I’m mystified how they differ from the real thing - but also about the attitude of the banks, the future of tobacco and the alarming state of the economy. More than a few people have opted to vote with their feet. This bodes ill for the future of this country. It’s the young well-educated people both black and white who are leaving and once they have settled elsewhere it is most unlikely that they will ever return. So the spiral continues ever downward. But you all know that, so why write about management?

There’s a good reason. Even if the political morass is settled within the next few months there will be many farmers who will fail because they do not understand basic business principles. Sadly the seeds for failure were planted not this year but in years past. In many cases they could have been avoided with a better understanding of just one aspect of management and that is money.

I say ‘money’ because, as I wrote in the first two articles of this series, there are two distinct aspects to money. On the one hand money implies economics and on the other it implies finance. To many people there is no difference between the two terms. They use them interchangeably, but there is a difference and it is important. What one does to overcome an economic problem is quite different from what one does for a financial problem. Our bankers and accountants would be well advised to note the difference. Unfortunately I don’t think they do.

During the two very intensive five-day management courses that my company presented to farmers and businessmen in Nyanga over the past few weeks it was clear that the same misunderstanding occurs with farmers. Trying to solve financial problems with economic tools doesn’t work.

For example, a man with a high overdraft and associated high interest decides that the best way to reduce his debt is to avoid incurring more expenses than necessary. Since his is an already lean business his one recourse is to plant fewer hectares. Sound reasonable? Well it’s not.

If you’ve been following this series you know that there are three factors that determine profit in *any* business. They are gross margin per unit (ha, cows etc), number of units produced and overheads. Cutting back on the number of units

produced means that there is less total gross margin available to cover the overheads. The consequence is a smaller profit and therefore less surplus money to pay back outstanding loans. In our example an attempt to solve the financial problem (funding for the business) with economic tools (reduced turnover) exacerbates the problem because *one cannot starve a profit into a business*.

As many of us now recognise, Zimbabwean farmers are in trouble today because of over investment in fixed assets (things they mean to keep). At the time, investing in irrigation systems, new tractors and trucks, boats and other toys may have made sense. Investing today when one expects the price to be double tomorrow sounds like common sense, but many people committed a cardinal financial sin – they used overdraft to pay for fixed assets.

The inevitable result of using short-term debt to finance fixed assets is that in an inflationary environment (a chronic problem in the Third World) one cannot meet the ever rising interest payments. The problem gets out of hand and the business faces bankruptcy. That is the problem facing a large number of farmers, particularly in Mashonaland, today.

Back to the example. What would I do if I were in those shoes? The first step is to make sure the business is economically viable. Estimate the expected gross margin per hectare for each crop taking into account only seed, fertiliser and chemicals and of course, the interest incurred in purchasing those inputs. Do NOT allocate labour, machinery and irrigation in this estimate because those items are overheads. If the gross margin is low - or worse yet, negative - don't plant the crop. If it's positive every hectare makes a contribution toward the overheads. That means that every single enterprise must produce a positive gross margin and make a meaningful contribution to overheads. So much for the economic steps. Next, there are some financial steps one can take.

Step one; get rid of unnecessary fixed assets. Even in a down market there is a buyer at the right price. I know that's difficult to swallow but when one realises that with an inflation rate of 70 percent the real value of money halves in a year, and that the alternative may be bankruptcy - - well, is there really a better alternative?

Step 2; prepare a realistic cashflow budget preferably in conjunction with your banker so she or he knows what you're on about. If the bank won't play ball try offering them the keys.

Of course there are many factors other than money involved in management. With luck these odd comments may help you, or someone else – if not here then wherever you end up.

An issue still outstanding that I wrote about last week concerns the transfer of authority from generation to generation. I haven't forgotten and will continue that discussion once I have given everyone an opportunity to comment.

*Stan Parsons is in the business of putting profit into small businesses. His latest book is called "If you Want To Be a Cowboy, Get a Job". Box CH 967 Chisipite. Tel/Fax 04/495532*

e-mail: [derryfarm@zol.co.zw](mailto:derryfarm@zol.co.zw)

[www.ranchmanagement.com](http://www.ranchmanagement.com)