Business Planning - Dealing with Cash Flow Challenges

Managing a business during volatile times is not easy and requires a clear business head to work through it.

Knowing the difference between cashflow and profit is important. If cash needs (private drawings, tax, capital loan repayments and capital investments) are greater than the profit before depreciation, then the business will be cash negative, even though it may still be profitable. This is fine for short term periods in a cashflow forecast, but is not good for a longer term trend. If cashflow is negative for a long period, the business must look at ways to increase profits, reduce drawings or capital spending, or restructure loan repayments.

Short term volatility should not change the approach to long term plans and strategies, unless markets fundamentally change for the longer term. Therefore, if you have invested in a given system, now is not the time to take fright and cut costs which give a good return (e.g. feed), as output invariably falls faster than the costs you save.

Key steps to take:

1. **Have a plan** – both short and medium term
2. **Stay focused** – know your own mind
3. **Budgets -** should be prepared with volatility in mind, using a sensible – three to five year average milk price and not the price from the peaks or troughs. Budgets should then be 'stress tested' to see what milk prices they can stand when milk price is low, so that they can still be cash positive.
4. **Think cash** in the short term – if your cashflow is predicted to be tight, put effort in to areas that will be cash positive, and cut back on capital spending, unless cash positive in less than 12 months. If your cashflow forecast predicts your overdraft limit is going to be breached, make your bank manager aware of this as early as you can.
5. **Challenge all costs** – question whether you are getting the best price possible for all inputs and question the return you get from each pound spent.
6. **Maximising milk price/contract** – make sure that you are on the right contract, even if you can't change milk buyer, you may be able to change your contract within the same buyer (if they offer more than one). In any case, you should examine the milk pricing schedule in order to ensure that you are getting the most available from it. For example, are you missing out on bonus payments related to butterfat/protein content or milk quality? Are you feeding to increase volume which is not being rewarded through a payment schedule? Are you aware of seasonality and/or profile adjustments and do they match your profile?

7. **Be involved with a discussion group** – sharing ideas and benchmarking with likeminded farmers in a well-structured group is one of the best ways to enthuse change, so the right decisions are made and implemented quickly.

8. **Have reserves available** - whether it is savings in the bank, or assets that you can sell relatively quickly if necessary.

9. **Consider your own attitude to risk**. Gearing is the ratio of borrowings to assets, with different targets for owner occupiers and tenants. Only borrow money if you are comfortable with the risks and that the potential rewards are great enough, and not just because the bank offers you the money.

10. **Build 'resilience' into your plan** – many businesses have now invested in renewable energy over the past few years, for example - wind turbines, PV solar, biomass boilers and anaerobic digesters. These investments are typically yielding between 10% – 25% return and are guaranteed income, index linked for 20 years. Even if paid for on a loan, they can add resilience to a business and be cash positive during the loan repayment phase.