By Christy Couch Lee

ADVANCED MONEY MANAGEMENT SERIES
- ☒ CASH FLOW PLANNING
- ☐ BALANCE SHEET
- ☐ INCOME STATEMENT
- ☐ RATIO ANALYSIS
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SERIES CHECKLIST

PART ONE

Go with the flow

Cash flow planning can take a good business to the next level

■ For Terry Hansen, a cash flow plan has always been a "must."

He has utilized the practice since he began farming in 1981 because, quite simply, he believed he couldn't get along without one. "I needed to have that roadmap throughout the year, to know where the next 12 months were going to take me," he says. "Otherwise, how do you know what you can or can't do, or what you can or can't buy?"

Hansen and his son, Tyler, farm 1,300 acres of cash crops in southern Minnesota. His son also manages a 6,400-head wean-to-finish hog operation, while Hansen also manages a farm insurance business.

"It's like anything in farming," Hansen says. "You don't think you need something until you have it, and then you don't know how you ever got along without it."

Cash flow planning involves forecasting long- and short-term business expenses against projected incoming cash. It appears to be common sense — developing a plan to determine if your operation is on track and set for maximum profits and efficiency.

However, Dick Wittman, an Idaho farm manager, financial consultant and contributing editor at *Farm Futures*, says statistics show less than half of top U.S. producers have a cash flow plan in place.

"Many producers know they should do it, but it's a lot of work," Wittman says. "After several years of prosperity, there is a tendency to coast on the momentum of previous years, and some feel as if they don't need that cash flow plan. But when you wing it, you live in a world of uncertainty. It's a stressful way to operate — compared to having a projection, monitoring the plan throughout the year, and evaluating how you end the year compared to budget."

Programs and tools

By using existing programs and tools, cash flow planning doesn't have to be overwhelming, Wittman says. Devoting time all year to monitor and adjust the plan can be quite freeing. It's a matter of taking it step by step.

First, assess your accounting program's budgeting features. If inadequate, contact your land-grant university for cash flow budgeting software to help you begin a plan. FINPAK, from the University of Minnesota Extension, is widely used for this purpose. Ensure the program is sophisticated enough to give a valuable projection for the size and diversity of your business.

"Some canned programs aren't versatile enough to handle a diversified business," Wittman says. "A good system must be able to take into account beginning and ending balance sheet data to facilitate preparation of an accrual-based projection of farm profitability. If it can couple the cash flow projection with a pro forma net income projection, you will see the financial feasibility of your plan of operations for the year. If not, you'll get a form with nice boxes filled with information on what will go in and out, without meaningful information on the true profitability of your business."

Quality cash flow projection programs also can be effective for conducting "scenario" or "what-if" planning.

"Once you have a base projection, you can see the immediate effects of a change in one of your assumptions on the year's income," he explains. "A well-designed program can show the projection for the year, as well as the bottom line you can expect at the end of the year."

A cash flow plan gives you time to make adjustments as market forces change during the year, says Idaho farmer and financial consultant Dick Wittman.

A believable cash flow projection starts with making realistic assumptions about what you plan to produce, and when you plan to market products raised in the business.

"Also, you must ask yourself: 'What financing will be required to achieve this production, and what capital items will I need to buy and sell?'" he says. "A cash flow plan forces you to make a first pass through all of those decisions for a 12-month operating cycle."

Once decisions are made, you can build a foundation for the operation, which lets you be proactive, rather than reactive. "You can work on a proactive basis, instead of finding out at the end of the year that you've missed your goals by a mile," he says. "By then, it's too late to adjust your strategy."

So if it's not difficult, why don't more farmers take advantage of this tool? Wittman believes it's because of the extended term of prosperous years coupled with producers having built more risk buffers into their financial structures. "People can frankly plod through and make money without a plan," he says. "It's not because of their planning, but because nature and the markets have been good to them." ff

Lee writes from Wellington, Ill.

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