



***BUSINESS FORECASTING,
PROFITABILITY & CASH FLOW
MANAGEMENT***

**A SEED AND ENTERPRISE INSTITUTE
(SEMI_s) COURSE PRESENTATION.**

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OVERVIEW OF PRESENTATION

- At the end of the presentation you should be able to understand:
 - Business Forecasting
 - Why manage the Cash flow ?
 - Cash Budgeting- Exercise
 - Cash Flow Analysis- Application
 - Cash Flow problems & Possible Solutions
 - Tips for Financial survival
 - Profitability Pitfalls to Avoid or Fix

Business Forecasting-Overview...

- Business Forecasting is rather like creating a map of where you are trying to go and what the financial steps are to get you there (Strategic Financial Forecasting)
- You will often hear that “farming is a lifestyle choice”. However on farms where the farmer needs the land to earn a living, he or she must be a businessman as well as a farmer
- Farming will be very different financially for the next generation compared to how it has been for the past current generation
- Farmers currently operate in a world of high competition, low commodity prices and high input costs

Business Forecasting-Overview...

- There are two main tools that you will use in forecasting
 - ✓ Profitability Budget
 - ✓ Monthly Cash flow forecast
- The Profitability Budget assesses the overall profitability of a proposed enterprise and therefore what level of costs can be incurred
- The Monthly Cash flow forecast attempts to predict the effect on the farms bank or cash balance over the months or year(s)

Why Manage Cash flows?

- In any business the availability of cash when required is critical
- Businesses fail because they run out of available cash, not necessarily because of profitability problems
- As farmer you Must know at all points in time:-
 - ✓ How much cash does the farm have available
 - ✓ What is the level of unpaid bills and when are they due
 - ✓ What cash is the farm owed and when will it be received

Why Manage Cash flows? Cont...

- In farming, cash flow management can be particularly difficult due to the length of time between investment of cash (cash out) and realising a return (cash in)
- Some sectors are easier to predict and manage than others
- Dairy Farming, for example, benefits from a monthly milk cheque that is generally received 30 days after the month in which the milk is produced
- Other Livestock and Arable Farmers however have a much longer period of time between incurring the production costs and seeing sale proceeds come into the bank

Why Manage Cash flow ? – Arable Farm-Case in Point

- April 2012 – Winter Foundation Seeds planted. Cash is therefore spent on Seed, Fertiliser and cultivation costs (Cash Out)
- August 2012 to Early December 2012 – various operations including spraying, fertilizing (Cash Out)
- April 2013 – Harvest costs (Cash Out)
- August 2013 to December 2013 – Seeds sold (Cash In)

Business Forecasting and Cash flow Management

- Profitability is dependent on receipt of the Single Farm Payment (therefore it is critical to establish how much will be received each year)
- There are other expenses to be paid out of the budget before a cash surplus/deficit can be established (Salaries, Seedlings, Drawings, Tax, Capital Investment)
- If you are buying machinery, you may need to do some external contracting/financing to cover these payments
- Over the harvest season the enterprises may be profitable but there will be a significant level of working capital to fund from cash that may not be there

Cash Flow Planning- Forecasting

- Cash transactions often occur in Farming
- It is vital to control & manage the flow of cash to ensure the farm generates a positive net cash flow
- $\text{Net cash flow} = \text{Cash inflows} - \text{cash outflows}$
- Cash flow analysis and forward planning can be applied to new or ongoing activities

Cash Flow Planning- Forecasting

- A farmer must generate enough cash to meet financial obligations as they fall due without disrupting normal operations
- Cash Flow of a farmer may be affected by:
 - The farm production cycle
 - Cash inflows from product sale (e.g delay sale for higher prices)
 - Delay in payment from customers

Cash Flow Planning- Forecasting

- Can be achieved through preparation of cash budget:
 - Yearly
 - Quarterly
 - Monthly
 - Weekly
 - Daily

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Cash Flow Planning- Forecasting

- Cash Inflows include
 - Crop and seed sales
 - Other farm receipts
 - Sale of capital assets
- Non farm receipts
- Borrowed money

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Cash Flow Planning- Forecasting

- Cash Outflows include:
- Production Expenses
- Capital expenditures
- Loan repayments
- Family living expenditures

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Cash Budgeting- Exercise

- Monica and Dan are farmers. Monica earns money from selling cassava while Dan is a fisherman. They have a few chicken and two goats. They have three children attending school. They would like to buy some farm seedlings costing \$6,000 and are wondering whether they can afford it and when to make the purchase.

Cash Budgeting- Exercise

- Dan expects to receive \$ 9,400 from the sale of fish as follows:
- \$400 per month in March, April & October
- \$600 per month in Feb, May, Sept \$ Nov
- \$800 per month in January and December
- \$ 1,200 per month in June and July
- \$1,800 in August

Cash Budgeting- Exercise

- Monica expects to receive \$3,000 from the sale of cassava as follows
 - \$300 in January
 - \$900 per month in June, July & August
- They expect to sell some small livestock and get :
 - \$ 600 per month in January and December

Cash Budgeting- Exercise

- They need Every month \$500 to cover living expenses
- They need school fees as follows:
- \$300 per month in march, June, Sep & Dec
- Dan needs money for boat and net repairs:
- \$200 per month in March, May and July
- \$ 300 in November

Cash Budgeting- Exercise

- Task
- Based on the above information prepare a cash forecast (budget) to indicate whether the farmers can buy the seedlings and if so which month to make the purchase
- Assume the family expects no other sources of cash flows

Cash flow Analysis Applications

- I. To monitor liquidity – ability to meet financial obligations as they fall due
- A farmer should keep two cash records
- Projected cash flow- prepared at beginning of the period
- Actual cash flows – record transactions as they occur- this forms the basis of projection for future period(s)

Cash flow Analysis Applications cont..

- **2. For Farm Planning and Management**
- Compare Actual cash flows with Projections to improve management of the farm
- Actual cash flows from year 1 can be used to forecast/project future cash flows
- Consider any other factors that may change

Cash flow Analysis Applications

cont...

- **3. To provide solutions to cash shortfalls**
- Cash flow analysis can be used to identify cash short falls and ways of addressing them; including
 - **Borrowing additional funds**
 - **Mobilizing savings**
 - **Selling assets**

Cash Flow Problems & Possible Solutions

- I. **Low Profitability**- this may be a symptom of cash flow problem:
- **Solution:**
- Analyze the profitability of each farming unit
- Increase profits by either :
- Raising prices or
- Controlling and lowering costs

Cash Flow Problems & Possible Solutions cont...

- 2. **Unexpected Cash Problems**- Cash Shortages or Deficits or Surpluses
- **Solution**
- Identify the problem before it occurs
- Prepare cash flow forecasts to give you the time to alter the timing of cash inflows and cash out flows

Cash Flow Problems & Possible Solutions cont...

- **3. Need to Maintain Profitability and Increase Cash flows**
- **Solution**
- Careful evaluation of combination of farm produce
 - Combining livestock with Arable farming
 - Crop rotation

Cash Flow Problems & Possible Solutions cont...

- 4. High Production Costs

- Solution

- Cost control

- Using the best seeds and seedling rates

- Fertilization at the right level

- Substitution of commercial fertilizers with manure

- Integrated pest management

Cash Flow Problems & Possible Solutions cont...

- **5. Increase Selling Flexibility**

- **Solution**

- Improve marketing plans

- For non perishable products have some flexibility in timing sales taking into account cost of storage

- The idea is to improve profit per sale

Cash Flow Problems & Possible Solutions cont...

- 6. **Need to Reduce Cash Out flows**

- **Solution**

- Lease or rent instead of owning

- Down payments and loan repayments associated with purchase of land, building and machinery may put a heavy burden on the cash flows

Cash Flow Problems & Possible Solutions cont...

- **7. Increase Cash Availability**

- **Solution**

- Consider taking an off- farm job (part or full time) – with proper structures laid for farm

- Re evaluate the expenses associated with farm support activities eg transport, clothing

- Refinancing of loans

- Sale of Assets

Tips to keep your farm business financially on track

- 1. *Prepare a **business plan** setting out exactly what you intend to do for at least the first 3 years.*
- This is the document that determines whether you have a business or not. Be realistic, objective and get others to read it and challenge you on the assumptions you make.

Tips to keep your farm business financially on track cont..

- 2. *Before the start of each harvest/ production year prepare a realistic Profitability Budget.*
- This will allow you to compare the impact on profit of your chosen enterprises and the effect on profit if you change the enterprise mix.
- The Profitability Budget also sets your target level of expenditure for the year. Any spending over and above this will effect your profit.

Tips to keep your farm business financially on track cont...

- *3. Before the start of the harvest/production year prepare a **monthly cash flow statement for the next 12 months.***
- This is a key document as it will allow you to work out your maximum borrowing requirement and arrange finance in advance.

Tips to keep your farm business financially on track cont...

- *4. Having produced these key documents **monitor** your performance against them on a regular basis.*
- Regular monitoring against budget and cash flow forecast is essential. There is no point creating a map for your journey which you then leave at home!
- Regular monitoring allows you to spot problems early and take corrective action.
- Regular monitoring also allows you to spot opportunities and take full advantage of them

Tips to keep your farm business financially on track cont...

- *5. Keep your **accounting records up to date** and use the services of a bookkeeper/farm secretary if necessary.*

- These records provide the information that will allow you to monitor both your performance against budget and cash flow.

- Accountants fees are based on the time they spend working on your affairs. The better the records you keep, the less you will pay in professional fees.

Don't be afraid to use the services of a bookkeeper if time does not allow you to keep on top of the records yourself.

Tips to keep your farm business financially on track cont...

- *6. Use a bank manager, accountant and solicitor/lawyer that understand and specialise in Farming.*

- Professionals that specialise in the Agricultural Industry are best placed to advise you. They look at a number of farming businesses day in, day out and see what works and what doesn't.

Tips to keep your farm business financially on track cont...

- **7. Communicate with your bank manager and other professional advisors.**
- You will have far more chance of securing additional finance if you stay in regular touch with your bank manager and keep him or her informed of how you are performing against budget throughout the year.
- Farming can be lonely and both your bank manager and accountant can give you valuable advice on a timely basis if you keep them informed.

Tips to keep your farm business financially on track cont...

- 8. Be **flexible**. If you identify problems act quickly. Take advice if necessary and put it into action ***immediately***.
- Business failures are littered with examples of good businesses that don't survive due to people "putting their head in the sand".

Tips to keep your farm business financially on track cont...

- *9. If you are going to use computer software to do your accounts ensure that you get the right Hard Ware, Software, and Training before you start.*
- A number of businesses have started by purchasing some cheap (off the shelf) accounting software and tried to teach themselves. Unfortunately this often leads to numerous problems including VAT return errors.
- In addition, computerised accounting systems which have been used incorrectly can take longer to put right than manual records.

Tips to keep your farm business financially on track cont...

- *10. Remain positive and never forget that you are working in the farming industry because it is your passion.*
- There are times in all businesses when the going is tough and you will question your reasons for continuing. The most successful businesses however continue to be those that are set up by individuals who have a true passion for what they do.

Ten Profitability Pitfalls to Avoid or Fix # 49

- *Cost of Goods Sold (COGS) should not exceed the proceeds from sale (Sales)*
- Analyze the drivers of COGS which include
 - Poor crop management and harvest practices
 - Poor out grower selection and oversight
 - Poor yield due to weather
 - High obsolescence due to poor storage
 - Loss of out growers due to failure to honor agreements
 - Failure to record and analyze production costs

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- **2. Excessive distribution costs**
- Geographical location of customers widespread
- Poor infrastructure
- High fuel cost
- High maintenance costs of delivery vans
- Not factoring distribution cost
- Delivery not justified by the margins

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- **3. Poor Receivables/Debtors management**

- Poor credit standards
- Granting credit to customers who are not credit worthy
- Poor collection efforts
- Poor monitoring of Debtors
- Delayed invoicing/reminders
- Long credit periods

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- **4. Poor quality products/ seeds**
- Substandard seeds that may not attract good prices
- Lost reputation from customers
- Availability of substitutes of superior seeds at reasonable prices

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- 5. Production of wrong products/ seeds without regard to the tastes and preference of customers
- Holding excessive levels of inventory that cannot be sold
- High storage costs
- Obsolescence and perishability of seeds

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- **6. Too much price concessions**
- Trying to undercut competitors
- Too much drive to sell
- Lack of proper costing systems
- Selling at a price below the variable costs of production
- Costs of production in excess of sales proceeds leading to losses

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- 7. Slow or poor planning and processing of seedlings leading to :
- Stock outs
- Missed sales
- Last minute distributions which maybe too costly
- No safety or buffer stock

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

8. Poor pricing Decision

- Price of seeds depends on a number of variables including:
 - Value of product/seed to a customer- it is possible to practice price discrimination to different customers
 - Cost structure of the company- the cost incurred up to the point of sale
 - Profitability goals of the farmer
 - Availability of competitors or substitutes

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- **9. Financial illiteracy of the management team:**
- A farmer is essentially a businessperson
- He/she must understand the meaning of the financial statement numbers
- Have a firm grasp on the financial position, financial performance, cash flows and business forecasting

Ten Profitability Pitfalls to Avoid or Fix # 49 cont...

- **10. Poor staffing decisions**
- Employing people based on criteria other than competence
- Failing to match people with jobs
- Too much costs paid on salaries and wages
- Poor human resource policies- not sure when to hire and fire

END OF PRESENTATION

• **THANK YOU**

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