The last couple of months, articles you’ve received discussed the intricacies of both cash rents and working capital. On the surface, these are two separate things, since one is an expense for which you write a check, and the other is a financial measure that serves as your financial fuel gauge as discussed last month. But are they really two separate things? The two are tied together more than a person thinks, as is the case with the other line items on your income statement.

Before going any further, an analogy sticks in my mind from my college days that Dr. Jim Kendrick from UNL offered one day twenty-some years ago in the futures trading class I took. Some of you may likely remember this professor as well if you attended school there. He was probably six-feet-six, and had a way with words. He passed away in 2014 at age 81. He talked about the economy and marketplace being like a bowl of marbles. If you pull one marble out of the bowl, no matter from where, other marbles are going to move. Some will move more than others, some will move less than others, and some may not move at all. Likewise, your overall financial position regarding everything from working capital, debt structure, to profitability is your financial bowl of marbles. Let’s take a look at how your bowl of marbles may behave by tying the previous two articles together.

As you plan your year—such as what to plant, fertilizer and chemical programs, when to start in the field, marketing grain and livestock—you likely realize that each individual decision has a direct impact on what your financial statement might look like on December 31, 2018 when you sit down to put it together with your lender. In other words, you are directly shaping your financial future on a daily basis. What if I rent another farm? What if I trade tractors? What if I feed the calves a bit longer?

Wouldn’t it be nice if you could look into the future and see what impacts certain decisions would have? What if we told you that you can, in fact, do that right now? No, we do not secretly keep a crystal ball in a safe somewhere. However, there is a way to plug in your cash flow in order to project what your balance sheet will look like up to a year in advance.

So how does that work? Let’s say you plug your cash flow numbers in to...
establish a baseline cash flow projection of your operation as it sits now. You researched your input costs for the year, decided what crops will be planted where, and/or figured out what you’ll raise for calves or pigs. Maybe there are some changes you have considered. By changes, we mean anything such as renting another farm, refinancing debt, trading a piece of equipment, buying some more breeding stock, tweaking the fertilizer program, and the list goes on almost forever. In turn, you can start to see what impact that could have financially.

As one very simple example, and tying back to the mentioned relationship between things like cash rent and working capital, let's say you did your cash flow projection and found that your working capital is showing a projected increase of $50,000. Then you add in the acres, yield, and expenses of adding a new quarter to the mix. When we look at your projected balance sheet for the end of 2018, you find that at a rent of $260 per acre, and other costs, that change in working capital suddenly becomes only $40,000. It doesn’t take long to figure out that passing up the farm probably saves you $10,000.

Let the farm go, right? Well, it can be looked at a different way also. That $10,000 on 160 acres is a bit over $60 per acre. What if you could negotiate the rent down to $220, and found four other things to shave off $5 per acre? Suddenly you’re back where you started on the financial increase you had projected. What if you could shave $10 per acre off those same four categories? You could look at your options even further if you decide you want to do more than just break even to where taking on that farm makes an additional “$X” profit. Granted, those changes have to be realistic. You may still come to the same conclusion to pass on the farm, but the difference is you made a decision eyes wide open.

Some of it comes back to yield and marketing, too, remember. Also remember that when budgeting for expenses, surprises can still come up, but the key is to try and stick to the budget (which is basically what a cash flow projection is) as much as possible, if the numbers used are realistic.

The point is, a producer can start to make much more informed decisions about change to the operation no matter how big or small those changes might be, and whether it is expanding or downsizing. You can start to answer the question “what would happen if……?” Back to the bowl of marbles analogy, it becomes easy to see how small decisions early in the year can impact other things in the operation later on in various ways.

Our lenders are ready to show you samples of this process in action. If you could have a tool in your toolbox as powerful as this, how soon would you want to use it?