

Managing your Money

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Why is it Important?

- The average Tasmanian dairy farm comprises: -
- Assets of approx. **\$5,000,000**
- Debt of approx. **\$1,250,000**
- Farm land of 350Ha in total and milks 350 cows producing 150,000 MS.
- Annual Business Turnover has been between **\$675,000** and **\$875,000**.
- Farming systems have got more complex; there is more 'churn' in the account.
- Farm 'Profit' has varied widely recently from surpluses to deficits.
- ***If you are not managing the money; you are not managing the business.***
- If you want to manage your money, you will need to monitor it closely & regularly.

What does the bank expect?

- Banks like to develop a trusting and co-operative working relationship with their customers. It should be a team approach.
- We need “open communication” about your business circumstances. Straight-talking builds trust. Under-promise and over-deliver. *It is all about YOUR credibility.*
- We need “honest communication”. Banks hate not being told ‘everything’-warts and all! “Oh, did I not tell you about that?” This can destroy trust.
- We need “timely communication”. Do it when it needs to be done. Don’t wait for reminders, or a desperate call to honour a cheque!
- If we have open, honest and timely communication, most things can be resolved with less stress for everyone!
- If you are pro-active in managing your money, you will pro-active in talking to your bank manager. You will be seen to be in control of your business.

What are your particular circumstances?

- Every farm business is unique.
- The aspirations and abilities of the Owners are also unique.
- Your bank is a relatively passive partner in the business. The bank's return is largely 'fixed'; the Owner gets everything else, including the capital gain!
- It is your business; so you decide what you achieve. But, your bank needs to know that you run the business; it doesn't run you!
- If you need extra financial support, you will need to explain clearly what it is for – development (*Investment*) or to '*Plug a Hole*' (Trading Loss)
- You will also need to explain how you will comfortably repay that money.
- ***Investment*** should enhance your ability to service the debt.
- '***Plugging holes***' could in fact be eroding your equity (increasing your debt) making it harder to service.

Show the 'Bank' you CAN manage your money.

- A well-prepared budget and monthly cashflow will demonstrate that you understand your whole business.
- A budget is simply the physical farm plan converted into financial outcomes.
- A budget can be quite accurate. A modern cashbook programme can make this very easy.
- A budget will develop careful spending behaviours. [If you don't spend more money than you earn you WON'T get into financial trouble](#)
- It will also define the requirements for working capital (O/D) as well as helping the business to live 'within the funds available'.
- [It is possible to farm without an overdraft!](#) If your business is trading profitably, then there should be surplus funds to maintain a credit balance!
- **Your aim should be to pay ALL the bills on time; every time.**

Business Lifetimes

- The financial needs of every farm business are different. We see the full range!.
- We see Young Farmers stretching their equity to buy a herd or a farm, and living on the edge financially
- We see Farm Expanders and the stresses that can cause on infrastructure, and where unexpected cost can create a challenge.
- We see Habitual Farmers who just keep doing the same thing every year, and struggle to deal with price volatility.
- We see 'Flashy Farmers' who 'must have the latest and greatest' and strangle their cash flows with machinery HPs
- We see "Joe Ordinary" who quietly gets on with the job and secures his financial position by steadily repaying debt to get to a less stressful position.
- It is YOUR business, but if you want less stress; financial flexibility and a good relationship with your bank manager then [learn to manage the money](#). And most importantly teach your son/daughter good financial habits because farming in the future will be even more complex and challenging

THANK YOU