Managing Through Difficult Times

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Farming and ranching are cyclical businesses. Supply and demand for agricultural products increase and decrease creating surpluses and deficits over time. While everyone knows the cyclical nature of agriculture, management decisions are seldom made with the cycles in mind. Some decisions made during "good" times can create a great deal of stress during "bad" times, especially with respect to financial decisions. Careful planning during "bad" times and learning from mistakes can develop good management skills. Using these skills during "good" times and budgeting carefully will help keep the farm farming and prepare for downturns.

Many variables are out of our control including weather, global politics, financial markets, prices received, and other things. Therefore, it is important to plan ahead when making large capital purchases to ensure the payments are manageable during times of lower income. When crop or livestock prices fall, making debt payments becomes much more difficult than when prices are high.

Marketing crops and livestock is difficult when prices are low. It is important to know the cost of production per bushel, pound, etc. to make informed decisions and to market production at even a small profit. Working with a marketing expert can be useful to market crops and livestock at a profit during low-profit years. Price movements can be difficult to follow during the production season and having some help monitoring prices can make the difference between profit and loss.

In my role as a farm management instructor, I often hear that "doing nothing" regarding selling or hedging production is a preferred strategy when prices are high. However, this can become a habit and when prices fall, doing nothing is not a path to profitability. This often results in selling when bills and loan payments are due regardless of price. Plus, doing nothing may mean giving up some profits even during a high price environment if it meant a higher pricing opportunity was missed.

Carefully plan cash flows to make sure they are realistic. Over-estimating yields or prices when budgeting just to make a cash flow margin positive seldom works. Estimating expenses on the high side is a better strategy than on the income side. It seems that unexpected expenses come along very often and not being prepared for these can create cash flow problems. Update cash flow projections frequently to see that income and expenses are in line with projections and adjust as necessary.

Finally, manage family living expenses during less profitable times. This is often difficult because living costs don't go down. But it might be necessary to skip vacations and reduce expenses where possible to keep cash flows positive.

It seems we are all optimistic when things are going well, and we think the good times will continue longer than they do. This often causes us to be reactive instead of proactive when making decisions during downturns.

The North Dakota Farm Management Education Program provides lifelong learning opportunities in economic and financial management for persons involved in the farming and ranching business. Visit ndfarmmanagement.com, Facebook @NDFarmManagementEducation, or contact Darin Spelhaug, State Supervisor for Agricultural Education, at dspelhaug@nd.gov or 701-328-3162 for more information. The ND Farm Management Education Program is sponsored by the North Dakota Department of Career and Technical Education.