ONLINE EXTRA

DOLLARS & SENSE

By David Bekedam

DAIRY BUSINESS
WEST
The Future of Dairy

Cash In on Effective Cash Management

Volatility remains a constant challenge in today's dairy business. Rapid fluctuations in commodity prices and milk markets require constant monitoring and informed decision making, especially in times of low milk prices like today. In times like these, smart and effective cash management is essential to keep things running as smoothly as possible. This involves knowing your cows and planning for your future

The first step in managing your cash flow is to develop a well-informed budget. Having and maintaining a current and projected budget is essential these days and more dairyman over the past several years appreciate its role in decision making processes. A budget and cash flow projection will give you a picture of where your cash is coming from and how much you can expect, as well as where it is going and how much is heading out.

Timing is everything when it comes to cash management and projecting. There are many different things to consider from one operation to the next. While one dairyman may be looking at buying silage in the fall and terms of that purchase, another dairyman may be looking at large harvesting bills and when those might come due. It is necessary to monitor feed usage in order to project inventory purchases. These expenses, as well as things like property taxes, insurance premiums, etc., should be included in the months they are expected to be paid. Averaging for many of these large expenses will not give you an accurate projection.

It's also important when considering the income side to study the flow of your herd. The best production you'll get is in the spring and the worst is in the hottest parts of the summer. Know, and adjust for, the time of the year when a larger percentage of your herd is dry than in others. You can use historical production per cow averages and/or consult with your nutritionist to get their informed opinion on the production levels they feel comfortably can be achieved. Projecting milk price becomes a bit more involved. Closely monitoring the Class III and Class IV Milk markets and adjusting your blend price accordingly and often should provide a reasonable estimate of the price you'll receive.

Many of your other expenses can be averaged, such as grain bills, repairs, supplies, vet and breeding, etc. Use your financial statements from your CPA or QuickBooks historical monthly profit/loss reports to assist you in making these estimates. It is still crucial to monitor changes in commodity prices. These can have large fluctuations in reaction to USDA reporting and other events.

Timing is everything when it comes to cash management and projecting. There are many different things to consider from one operation to the next.

Your projections should include amounts to pay down or borrow on bank debt. All sources and uses of cash need to be included. Along with these changes in debt, you should monitor your loan-to-value position to assess whether you are in compliance with loan covenants. In times where money is tight and borrowings outweigh repayments, you can be sure your loan officer is watching this closely. They will feel much better about lending you money if they know you are watching closely, too.

Once you have your budget set up, monitor and revise it often. Update the numbers based on market changes and your operation's specific needs. Just as important as having your projections done is then comparing them to actual results. What caused large variations and why? In assessing these fluctuations, you will become more informed and better able to accurately project your numbers in the future. Preparing and maintaining your projections is essential, but monitoring and understanding the reasons for why you achieved or failed to accomplish expected results is vital.

Gone are the days of expecting to profit year after year in the dairy business, as I've heard from so many dairymen. Since 2009 and the years that followed, dairymen across the board have become much more sophisticated businessmen. If you are not preparing budgets, looking at projections and managing your cash and position with the bank, you are doing yourself a disservice. ✱

David Bekedam, CPA, is a partner with *Frazer, LLP.* Contact him at *dbekedam@frazerllp.com.*