

Tactics for Tight Times fact sheet 1 – May 2016

Taking Stock of your situation

With the continuing tough seasonal conditions and the recent milk price announcements, the majority of south eastern Australian dairy farmers will be facing challenging operating conditions for the foreseeable future.

While every farm situation is unique, this fact sheet is designed to help you understand your current position and start to plan ahead.

Pull together your support team

Who can you call on to provide input into all the important aspects of your business?

Support team members will be drawn from your family and friends, farming peers, discussion group members, your accountant, your consultant, your factory field officer, your bank manager, or other service providers.

Know your current situation – Take Stock

There are no 'one size fits all' solutions, but there is a sound process to work through to better understand your situation.

The Taking Stock process considers

- › Animal and feed issues
- › The financial situation of the business; and the
- › Implications for your employees.

DairyBase is available online www.dairybase.com.au and can help you understand your annual cash flow and balance sheet. The Taking Stock tool also helps to pull together your information for the planning process. It is available at www.tfft.dairyaustralia.com.au

The Taking Stock process will help you:

- › Understand the cash flow position of your business through May – July
- › Start pulling together the necessary physical and financial information to fully understand your cash flow position for 2016/17 on both an annual and monthly basis
- › Understand your current balance sheet position i.e. What you own (assets) versus what you owe (liabilities/loans)
- › Your feed budget (annual and monthly)
- › What resources you have available to draw on.



1. Annual Cash Flow

- › Focus on cash (total outgoings and incomings including those associated with non farm activities)
- › Start by looking at your current situation on a yearly basis and then after considering options, run this into a monthly cash flow which can be updated on a monthly basis
- › By using the Cash Report in DairyBase or the Taking Stock tool you can start to identify options to help manage the current conditions. Your support team will provide important input as you develop plans that balance the needs of immediate cash flow with longer term goals.

2. Monthly milk income and feed budget

- › Purchased feed and home grown feed as we know are the single biggest costs: understanding them both on an annual and monthly basis relative to milk income is critical

- › The first task is to understand your May and June milk price, milk income and feed expenditure and how it will impact on cash flow through until the end of July '16
- › Having sorted out the May and June income and feed expenditure, start work on a detailed cash flow budget for 16/17.

3. Detailed Cash Budget for 16/17

- › Using the Cash Report in DairyBase or the Taking Stock tool, start working on an Annual Cash Budget for 16/17
- › While we don't know the actual milk price for 16/17 by putting all your other income and expenditure into an annual budget you will start to get a clearer understanding of at what milk price your annual cash flow position is break even.
- › This initial Cash Budget will then form the basis for discussions with your support team as you fine tune strategies for 16/17.

4. Monthly Cash Flow Statement

As you start to settle on the plan for 16/17 a monthly cash flow will provide:

- › A more detailed 'road map' of how the annual results will be achieved
- › A framework to more closely track the actual performance against budget
- › An easy update if/when the bigger settings e.g. milk price, milk production, feed costs change throughout the year.

5. Balance sheet - What you own (assets) versus what you owe (loans/liabilities)

Equity position – it is important to know your equity position using realistic values for all the assets that you own minus all your liabilities. It will influence what sources of funds are available from the bank and help identify any surplus assets. Equity should be viewed in conjunction with cash flow.

Key outcomes of knowing your current situation – summary

1. Know your milk price, milk income and all expenses to complete a cash flow for the next three months
2. Complete an annual Cash Budget July–June and understand your break even milk price
3. Assess your balance sheet/ equity position
4. Start pulling together a month by month cash flow
5. Using your initial annualised Cash Budget, start working with your team to identify opportunities to improve cash flow
6. After evaluating all options, develop a month-by-month plan including milk production, feed budget and detailed cash flow position for the next 12 months
7. Identify any surplus or non core assets that can be converted to cash
8. Identify any other potential issues that need addressing e.g. stock water
9. Don't forget the 'people' side of your business – what they can contribute and what are their needs?

Remember:

- › All options are on the table and will have a potential upside and a downside
- › It can be easy to reduce expenditure, but harder to identify the risk of how that reduction in expenditure will impact on your overall margin. This is where the real value of your support team kicks in.
- › While there are actions you can implement immediately, expect it to take some time to formulate your plans
- › You will need to revisit your plan as more information becomes available and/or if conditions change.

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Dairy Australia Limited ABN 60 105 227 987
Level 5, IBM Centre
60 City Road, Southbank VIC 3006 Australia
T + 61 3 9694 3777 F + 61 3 9694 3701
E enquiries@dairyaustralia.com.au
dairyaustralia.com.au

