By Brent King

6 KILLER D's FOR FARM FINANCES

DIVERSIFICATION, DEBT, DISRUPTION, DISTANCE, DISARRAY, AND DISTRACTION CAN LEAD TO BANKRUPTCY.

Over the course of my 20-year career as a financial adviser to distressed and troubled businesses, I have observed many common elements that lead to financial problems. I like to refer to them as the Killer D's, because they can cause the death of farming businesses.

Diversification can be used to reduce risk and increased earnings. However, diversifying your business operations can lead to a lack of management focus and a drain on capital.

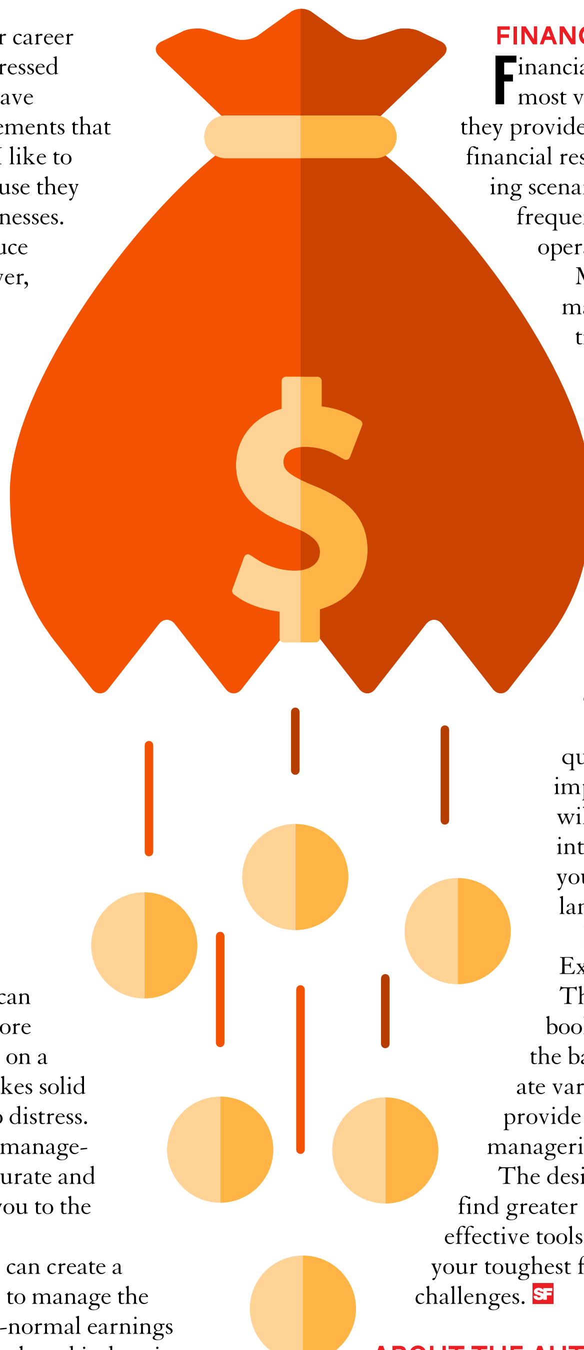
Debt is an extremely valuable source of financing for the acquisition of equipment and working capital, but excessive debt frequently leads to financial distress. It increases a farm's vulnerability to declining crop prices, inclement weather, and increased costs. Excessive debt offers you fewer alternatives to counter unexpected market conditions.

Disruption and unforeseen events occur in every business. As a farmer, drought, excessive rain, herd health problems, government regulations, and plant disease can increase your distress.

Distance between farming locations can quickly lead to increased production costs. Extra travel time can also limit your focus on the farm's core operations. For some of you, taking on a farm outside the home territory makes solid sense; for others, it can be a ticket to distress.

Disarray and inefficient financial management systems that fail to deliver accurate and timely operating reports can blind you to the extent and magnitude of problems.

Distraction from cyclical earnings can create a sense of euphoria and may lead you to manage the business assuming that higher-than-normal earnings are the new normal. For commodity-based industries, it is reasonable to assume that every high is going to be followed by a low, before returning to a normalized price environment.



FINANCIAL MODELING CAN HELP

Financial management models are among the most valuable management tools because they provide you with the ability to forecast financial results based on a wide range of operating scenarios. However, financial models are frequently overlooked if you find your operation in distress.

Models reveal valuable financial information, including break-even production amounts, cost behavior, cash flows, and earnings. Financial models allow you to forecast the sensitivity of future earnings based on multiple input variables. Such analyses will allow you to optimize the amount of debt financing that can be incurred without assuming excessive risks associated with declining market conditions. Financial models can also allow you to devise ways to accelerate the repayment of debt obligations.

Financial models can be used to quantify and predict the financial impact of foreseeable disruptions, which will allow you to build contingencies into your operating decisions. It can help you prepare for a rough ride when the landscape of farming turns bumpy.

If you don't know how to create an Excel-based financial model, don't fear. There are many online tutorials and books for new users. Once you've learned the basics, you can create models to evaluate various operational scenarios that can provide predictive information to guide your managerial decisions.

The desired goal of financial modeling is to find greater peace of mind knowing that you have effective tools to understand, predict, and manage your toughest farm business challenges. SF

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