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## Management Strategies for 2016

As we look ahead to 2016, crop revenues are likely to be reduced compared to a few years ago.

2016 crop input costs declined slightly from last year's levels, as have land rental rates in some areas. However, projected profit margins for 2016 crop production are still below breakeven levels for many producers.

The profit margins in the livestock sector declined significantly in 2015 and are likely to remain quite tight this year.

Credit availability for agriculture should remain good for farm businesses that are on a solid financial base. However, credit could get tighter for farm businesses that are in a higher risk financial position.

The following are some strategies to consider during highly volatile and stressful financial times in the farming business:

- **Keep the "current position (cash available)" segment of the farm business strong:**
  - It is usually better to use excess cash revenues from a farm operation to pay down short-term debt, rather than making extra payments on loans.
  - Use excess crop revenues from 2015 grain sales to prepay 2016 and 2017 crop expenses.
  - Pay attention to the level of "working capital" and the "current ratio" on your farm financial statement. If there is a big decline, it could signal some concerns.
  - Be wary of excessive spending for family living and non-farm expenditures.
  - Include non-farm and family living expenditures in farm-cash-flow planning.

### **Kent Thiesse**

*Farm Analyst, Vice President*

*MinnStar Bank, NA*

*Lake Crystal, MN*

[kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com)

**(507) 381-7960**

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- **Be cautious of machinery and facility investments for the farm business:**
  - Make wise decisions on the use of available cash for capital improvement investments.
  - Make sure that the investments are needed and have a potential return for the business.
  - Remember that the term loans set up to finance capital improvements may require payments for several years.
  - Look for opportunities to sell farm assets that are no longer needed in the farm business.
  
- **Be cautious of buying expensive farmland:**
  - There is likely to be a lot of farmland for sale in the coming months. Don't get caught up in the hype of "buy now because they don't make any more farmland." Make sure that any land purchases are financially sound for your farm business.
  - Shop around before settling on a farm purchase, as you may be able to find a comparable farm, as far as land quality and production capability, for less money.
  - Compare the cost of owning the land to the likely annual land rental rates to secure land.
  - Be cautious of excessive use of available cash for land investments.
  
- **Look at ways to reduce and manage financial risk:**
  - Fine tune a farm's grain marketing plan, based on the cost of production.
  - Pay attention to changes in the ARC-CO farm program payments from year to year and how that may affect the cash flow for the farm business.
  - Take time to analyze the best crop insurance strategies for your farm operation in 2016.
  - Thoroughly analyze seed, fertilizer, chemical, etc. decisions for the crop enterprise.
  - Be cautious of excessive bidding for land rent and consider flexible lease contracts to address volatile crop prices and profitability, provided a landlord will agree.
  - Look for profit margin opportunities in crop and livestock production, and take advantage to lock in cash expenses and market prices when those margins exist.
  
- **Communicate with your with family members, farm**

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## partners, and ag lenders:

- When financial matters and farm profitability become more challenging in a farm operation, discuss these challenges and possible solutions with family members and other partners in the farm operation.
- Meet with your ag lender early to discuss your farm operating credit needs for 2016.
- Utilize farm business management advisors, crop insurance agents, marketing advisors, crop consultants, and other professionals to assist with farm management decisions.
- Discuss planned machinery and equipment purchases, and potential land purchases, along with the projected cash flow impacts on the farm business, prior to finalizing those decisions.
- Discuss your grain and livestock marketing plans, and how they fit into cash flow plans.
- Discuss any financial concerns early, either farm-related or non-farm, while there is still time to make adjustments.
- View your ag lender and other professionals as consultants to assist you with key financial and management decisions in your farm operation.

For more information, contact Kent Thiesse, Farm Management Analyst at: [kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com) or 507-726-2137.

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