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Financial Management Strategies for 2017

Projected profit margins for crop production this year are likely to be at or below breakeven levels for many producers.

Crop input costs for seed, fertilizer, chemicals, fuel, etc. have declined slightly from 2016 levels, along with land-rental rates in some areas. However, based on currently-projected prices and trend-line-average yields, crop revenues are likely to decline this year. Profit margins in the livestock sector deteriorated significantly in 2016 and are likely to remain quite tight in 2017.

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

The following are some financial strategies for farm businesses to consider.

Keep the current position (cash-available) segment of the farm business strong.

- 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 financial concerns for the farm business.
- It is usually a better option to use excess cash revenues from the farm operation to pay down short-term operating debt, rather than to make extra payments on term loans.
- If there are any excess crop revenues from 2016 grain sales beyond repayment of the 2016 Farm Operating Loan, it is probably best to prepay some 2017 or 2018 crop expenses.
- Remember to account for CCC grain loans, financing with crop input suppliers, short-term loans from family members, etc. when analyzing the working capital for the farm operation.

Look at ways to reduce production costs and other expenses.

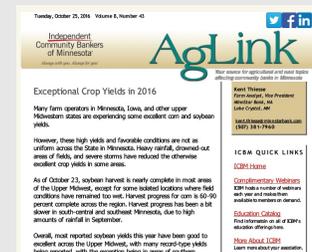
- Try to be a low-cost producer and thoroughly analyze seed,

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fertilizer, chemical, crop expense, and other decisions for 2017, and then look for ways to make reductions.

- Be cautious when making reductions in crop production costs, so as not to significantly impact yield potential.
- Carefully analyze more expensive cash-rental rates on rented land and if the rates are not profitable, try to negotiate lower rental rates, or possibly give up some high-rent land.
- Negotiate flexible lease contracts with agreeable landlords if final crop prices and/or yields fluctuate.
- Review all other direct and overhead expenses in a farm operation and look for ways to make reductions.

Review other ways to manage financial risk.

- Fine tune a farm's grain-marketing plan, based on the cost of production, and incorporate price targets and deadlines as part of the plan.
- Don't get caught up in market hype or chatter. Pay attention to how changes in market prices affect your own farm business.
- Look for profit-margin opportunities in crop and livestock production and take advantage of them in an effort to lock in both cash expenses and market prices when available.
- Take time to analyze the best crop insurance strategies for your farm operation in 2017. Keep in mind that cutting crop insurance coverage may not be the best risk-management strategy.
- Pay attention to changes in ARC-CO farm program payments--realizing that there is a lot of variation.
- Excessive spending for family living and non-farm expenditures can be a hidden expense in the farm business. Include these expenditures in the budget.

Be cautious of machinery and facility investments for the farm business.

- Make wise decisions on the use of available cash for farm machinery and capital improvement investments, and make sure that the investments are needed for the farm operation.
- Remember, term loans that are set up to finance capital improvements, may require payments for several years, and thus need to be factored into future cash-flow budgets.
- Look for opportunities to sell any farm assets that are no longer needed.

Carefully analyze farmland purchase decisions.

- There is likely to be a lot of farmland for sale in the coming year, so 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 the long-term future of your farm business.
- Shop around before settling on a high-dollar purchase of farmland, as there may be opportunities to find comparable farmland (as far as land quality and production capability) for

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less money.

- Compare the cost of owning farmland to likely, annual land-rental rates in an effort to secure increased crop acreage.
- Be sure to include the required, annual real estate loan principal and interest payments (along with real estate taxes) into cash-flow planning.

Communicate with family members, farm partners, and ag lenders.

- When financial matters and farm profitability become more challenging in a farm operation, it is very important to discuss these challenges and possible solutions with family members and other partners in the farm operation.
- Meet with your ag lender early on to discuss your farm operating credit needs for 2017 and to consider possible solutions to address any financial challenges that may exist.
- 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, potential land purchases, and the projected cash-flow impacts on the farm business, prior to finalizing those decisions.
- Discuss grain and livestock marketing plans and the impact those marketing decisions could have on cash-flow plans.
- Discuss any financial concerns early, while there is still time to make appropriate financial adjustments.
- View your ag lender and other professionals as consultants to assist with financial and management decisions in your farm operation, rather than as adversaries.

For more information, contact Kent Thiesse, Farm Management Analyst and Vice President, MinnStar Bank, Lake Crystal at: 507-381-7960 or kent.thiesse@minnstarbank.com.

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