

The Dairy Business

By
Newton Bair

Watch out for red flags

Maybe I'd better define right from the start what I mean by "Red Flags". They are the little signals that flash across the mind to caution us when something serious is happening.

Lots of examples can be cited, for they are plastered all over the headlines and in the five, six and seven o'clock news.

But the most important flags may be those very private ones that don't hit the news. They often tend to be hidden, like thorns among the roses.

You will soon receive your year-end summary for the 1985 business year from your accountant. Learn to look at it very critically, and if possible make comparisons with the average figures for the State or county.

Your Accountant will be glad to point out any weaknesses that will raise a red flag. If you don't have an accountant to analyze the farm business, start right now to assemble your data for the 1985 Income Taxes.

Clean out the desk, get the account book up to date, and categorize all expenses and income. And resolve to do better next year.

Now about those flags, if you do not already see them waving fast and furious. The first one I look at is the Debt-to-asset ratio. Divide

your total debts by your total assets, (value of land, buildings, depreciable machinery, stock, and inventory).

Most farm economists and bankers agree that a Debt: Asset ratio above .4, which is the same as saying your D/A is 40 percent, raises a flag. For example, your farm debts total \$100,000 and the total value of all your assets is \$250,000, you ratio is 40 percent. If your total debt is \$150,000, your D/A becomes .6, or 60 percent.

You may be technically solvent if the D/A is exactly 1.0, or 100 percent! That simply means that if liquidated, the value of assets would pay off the debts, everything even. But you and your family would be naked paupers, destitute, and probably on welfare. Very difficult to borrow your way out of.

Another red flag is Net Worth. That is the difference between the total debts and total asset value. Any young farmer just starting out in business, will have a fairly low net worth, until he has several successful years behind him.

The actual net worth of a farm business should show some growth. But the last few years have slowed down the actual growth of Net Worth, because of lower land values, building and machinery depreciation, and softer cattle prices.

ST. LOUIS - Make way for Soybean Aid! U.S. soybean farmers are pitching in to help end world hunger. Through their

The flag really goes up when I see a farmer's Net Worth eroding away every year, for several years in a row. It can disappear altogether if that keeps on another year or two.

But the biggest red flag of all is when a farm business must borrow money to finance the previous years expenses, several years in a row. It is the one that waves in front of your eyes violently, so can't be ignored.

It is saying that there simply is not enough cash flow to cover the cost of operating the business and feed and clothe the family. Significant adjustments MUST be made, and right away.

A bad year will occasionally hit every farm. Re-financing old loans or a discrete new loan should not be considered a red flag, if other adjustments are made, and recovery is normal. But if borrowing becomes chronic, and no adjustments are made to either reduce expenses or increase income, the flag takes on a crimson glow.

Start early this year to pay close attention to the indicators in your business. Many things will affect the Dairy business this year. Some are beyond our control, but many are still within our grasp to make work.

Work closely with financial advisors, and don't be afraid to discuss your problems with those you trust. And don't hesitate to make adjustments in your business, especially when old habits are costing too much and not returning enough.

Learning to recognize and react to the RED FLAGS can save your business and your family's welfare.

Soybean farmers helping to ease world hunger

soybean checkoff investment in the Soybean Association, U.S. farmers help promote use of soy protein to fortify foods in developing nations.

"Because of Soybean Association programs, fewer children are going to bed hungry each night," says Gil Harrison. "And at the same time, U.S. soybean farmers are gaining markets."

Harrison is the American Soybean Association's market development division manager for Latin America. He and other Soybean Association staff and consultants implement programs in Latin America that help U.S. farmers expand soybean markets.

Harrison says the bulk of Soybean Association project funding supports potential markets for soybean meal and oil. But some dollars do go to promote soy protein and play a small but crucial part in expanding soybean markets.

"In the Dominican Republic, 400 children will soon participate in a special six-month nutrition program to document the benefits of soy protein in the diet," says Harrison.


Earlier this month, the S.S. Unicorn Express arrived at the port of Santo Domingo carrying two tons of soy protein products. The products were donated by the

Soy Protein Council for use in Soybean Association-sponsored child nutrition programs.

Under the direction of Soybean Association nutrition consultant Dr. Haydee Rondon - a doctor at the Robert Reid Memorial Children's Hospital in the Dominican Republic - the soy protein will be incorporated into spaghetti, sausages, and bread. Nearly 400 children at the hospital, a government day care center and an orphanage will be the daily beneficiaries of these fortified foods.

"Children who receive this additional protein should grow healthier and stronger quicker. And that's what we want to show the Dominican government," says Harrison.


"Worldwide, a lot of people can't afford meat, but they still need protein. We're showing people that soy can do the trick. If it is used correctly in foods and beverages, it is quite palatable," says Harrison. "There's a long-term benefit to this program. Through the Soy Protein Council, our cooperators in this project - Cargill, Archer Daniels Midland, Central Soya, A.E. Staley and Grain Processing Corp. - will take what we learn in the Dominican Republic to the protein-starved countries of Africa and Asia."



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