

Farmers Need A Financial Plan

Farming is undergoing many changes. Farm operators who wish to survive these changes must be good financial managers. And this requires a sound financial plan for the business.

The purpose of financial analysis is to give the manager warning signals, identify trouble spots and measure the effects of corrective action.

According to University of Delaware extension economist Gerald F. Vaughn, producers who develop a good plan are likely to make more profitable management decisions because they know the strengths and weaknesses of their business. They're also in a better position to take needed corrective action because they understand their management options.

Farmers with a good financial plan are more likely to receive favorable credit terms when they need to borrow money.

"Put yourself in the lender's shoes," Vaughn says. "Would you lend money to a farmer who has to

ask you where he stands financially? Or would you have more confidence in one who walks in well-prepared to explain his financial and marketing plan to you?"

Farm operators who've taken the time to develop a financial plan are likely to feel less personal stress than those who haven't evaluated their business objectively, the economist says. "If you know where you stand financially, how much corrective action is needed and what your alternatives are, you're less likely to feel helpless. Discussing your financial plans and management strategies with other family members or financial advisors can also build self-confidence and reduce emotional stress because you know you're not alone with your problems.

"You can voluntarily develop a financial plan now or be legally forced to develop one later under bankruptcy reorganization," the

specialist points out. "Given the less than optimistic agricultural economic outlook for the next few years, an eroding financial position requires action now. As time goes on, fewer management options will remain as the business' resources and equity are depleted. So the sooner corrective management strategies are adopted, the more likely they are to be effective."

Where liquidation must be considered, partial voluntary liquidation can often result in a smaller, leaner and more financially sound farm operation, Vaughn says. "But this action requires that some equity be left in the farm. So it's crucial to get on top of your financial position while you still have some equity."

It's not enough merely to keep good financial records, the economist concludes—you must analyze them and then put them to use to make sound management decisions.

Buyout Program

(Continued from Page D11)

latter half of 1986.

The M-W decreased slightly, but steadily, through the first 3 months of 1986 and started increasing in June, slowly at first, then in large increases during the next 4 months. In August, the M-W moved above the support price and by November was 60-cents above support. If the M-W does not go above \$12 in December it will probably be very close.

Although the support price dropped 25-cents January, it should only decrease the M-W a very small amount, if at all. It could very well be that since sales to the CCC are quite low and, conversely, sales to the commercial market are strong, no decrease in the M-W may occur in January and February.

If trends in production and consumption remain constant, further increases, although, not as large as during the latter part of 1986, may occur in early 1987. Again, the spring flush will play a major role in the determination of the M-W in 1987.

If production of milk doesn't increase significantly in 1987, the M-W average price in 1987 should be well above that for 1986. In addition, dairy farmers will regain the 40-cent assessment in 1987, 15-cents in January and the remaining 25-cents in October.


This coupled with an expected increase in Class I utilization should result in an increase in blend prices to Pennsylvania dairy farmers of 25 to 40 cents in 1987. It certainly looks that at least for 1987 the economic situation is brighter for dairy farmers.

What occurs in 1988 and 1989 will depend on if and how strong milk production increases after the impact of the buyout program on production ends.



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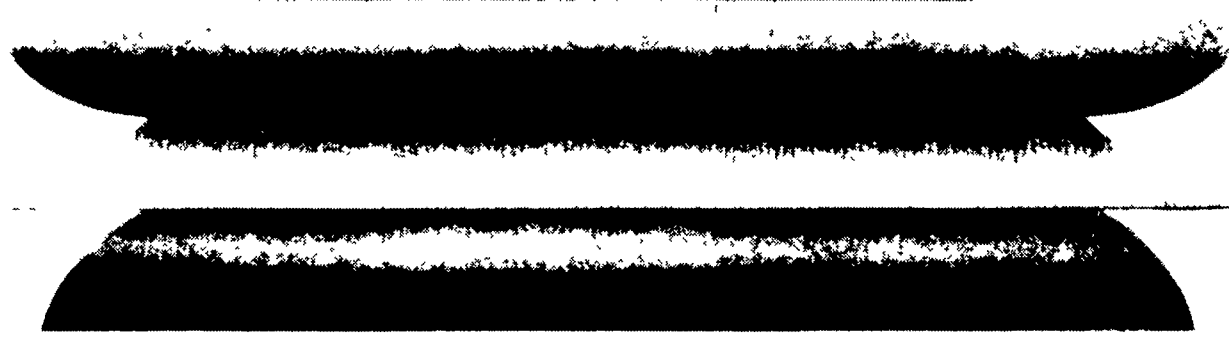
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