

# Economic Sense Key To Good Management

Farmers keep hearing about good financial management is a must for survival. But what does that term really mean?

Good financial management begins with a thorough understanding of your farm business, according to University of Delaware extension economist Gerald F. Vaughn.

"Top financial managers anticipate and plan the events that shape their business success," Vaughn says. "Average managers watch as events affect their business; then they react. Weak managers have little understanding of why events affect their business. Because they have difficulty analyzing their situation, they don't know how to use the factors under their control to solve problems."

Luck is an element in all businesses, the economist says. However, overall success is likely to come to those who anticipate events, understand the management tools and indicators of their business, and who take full

control of these factors.

"If you want to become a better financial manager, start by figuring out where your farm operation stands compared to others in the same business," Vaughn says.

To determine the financial health of your farm operation, the economist suggests you ask yourself five critical questions:

- Do you have too much debt for today's economy.
- Can you cover your current obligations?
- Do you have normal profits compared to other producers?
- How much are you getting ahead or falling behind?
- What are the financial strengths and weaknesses of your farm business?

More than ever farm lenders are using financial statements, financial ratios and key management indicators to evaluate credit worthiness. The emphasis has shifted during the 1980s from collateral to earned profitability and cash flow. In-

creasingly, credit worthiness is being used as the basis for loan interest rates.

This new emphasis means producers must be able to convince lenders that they have marketing, financial and production management skills. To be worthy of credit, Vaughn says farmers today must have a financial plan for repaying from their productive earnings whatever they borrow.

Top farm financial managers are familiar with the indicators lenders use. These producers know how their business stacks up against the competition and are aware of available corrective options.

Top managers calculate their own indicators and develop their own cash flow plans, the economist says. They can walk into the bank and show their lender that they're on top of their financial position and have sound marketing and financial plans.

"Most lenders are willing to explain their credit evaluation criteria," Vaughn says. "If approached in a reasonable manner, they may even help you analyze your farm business to see how you might improve your financial

position."

For more information on farm financial management, Delaware farmers are encouraged to contact their county extension office in Newark (451-2506), Dover (697-4000) or Georgetown (856-7303).



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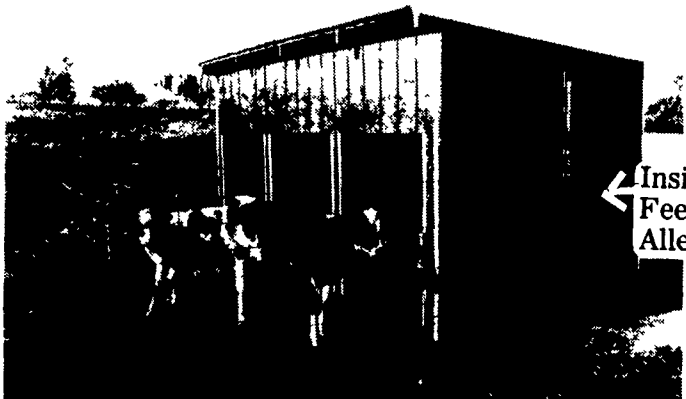
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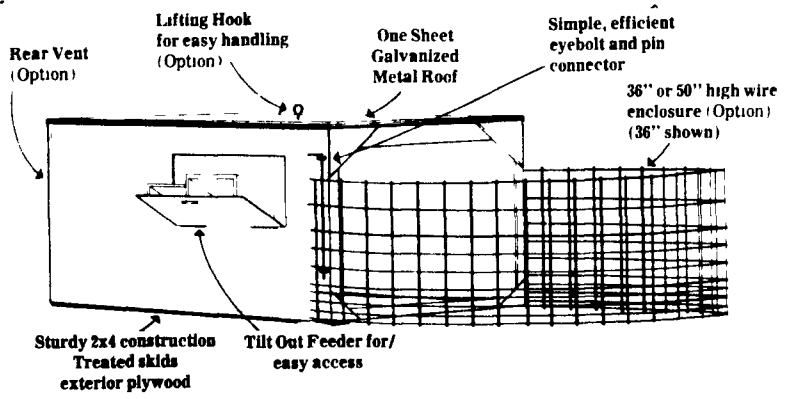
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