

Capital Versus Profits – navigating a healthy tension

It's the tensions in business outlook that offer diversity and opportunity. Cashing in requires accurate information and effective planning. Its for those reasons the tensions between capital and profit objectives are in the spotlight for many right now.

The thinking needs to be carefully balanced here. There is no point in applying solely rational analysis to irrational investment strategies. Given the price farmers have been prepared to pay for land, Fonterra shares and expansion they hardly can expect competitive investment returns.

Balancing this is the reality that it's difficult to find alternatives that offer the traditional security, autonomy and potential capital growth that compete with farming.

Given tighter profit margins and pressures on cash flows its even more important to use all resources for business analysis and capital results fundamental to prudent management.

Understanding Business Performance

I'm full on with annual reviews right now. That process is heavily dependent on accurate analysis that cuts through the fog of changing asset values, cost structures and management strategies.

I've always promoted accounts analysis and this year am appreciating access to **Dairybase** – the new on line Dairy Insight funded accounts analysis facility. Its given the opportunity to dig deeper and get a clear picture of the cash, true profit and capital result.

My initial impression is that it has given the Industry a valuable tool so farmers can better understand their business performance. As a standardised and well-supported resource it will to lead to credible benchmarking and appropriately detailed comparison – something that has relied on the goodwill of selected professionals until now.

As a result there's plenty of learning going on at my end. One surprise is the variety of ways professionals from the same profession carry out what one could reasonably assume is the same task. As Dairybase relies on balance sheet and cash reconciliations it forces more thorough analysis and review of every page in the accounts. The previously mentioned variety of approaches makes understanding quite a challenge.

This has got me thinking about how many business owners really understand their annual Accounts and capture all of their potential value. Industry wide commitment to the programme will certainly help interpretation and offer professionals an opportunity to build some quality advice around the information generated. I'm doing my best to make this happen and I encourage farmers to request it of their professionals.

Information to action

Timely accounts analysis supported by robust budgeting, proactive business planning and solid annual reviews are the keys to managing cashflows and tensions between profit and capital investment. Priority is to measure all dimensions of the business. This may mean recognising that if you rely on capital gains for wealth creation, there will likely be a time where a sale will be required to convert your wealth to cash.

Viewing this as defeat needs is not valid. Many operations risk being over-exposed to agriculture. Their owners are making unnecessary sacrifices to hold on to assets too long. Well timed rationalisation makes sense if it will not diminish the sustainability of the core business.

Given the uncertainties of capital markets now could be a good time to cash in – especially if there is likely to be pressure from financiers or other forces that make this less of a choice going forward.

Most would agree we are at the top of a significant growth cycle. Now is a good time to 'batten down the hatches' and make sure the business is in good shape to deliver your expectations for the next phase. Getting your professionals together to read the dials can be a great start.

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