



## Tactics for Tight Times

# Meeting the bank – are you prepared?

With lower milk prices anticipated next season, a good farmer-banker relationship has never been more important. This fact sheet has been adapted from information provided by DairyNZ, and provides advice on the importance of meeting with your bank manager and how to get the most out of the meeting.

The more information you can provide your banker with regarding annual summaries of physical and financial performance (for example, using DairyBase) plus monthly cashflows underpinned by milk production and feed budgets, the more confidence you and your banker will have in your forward plans. You need to know where your business is now, where it is going and what you will do to get there.

This requires a plan and budgets which demonstrate business profitability (that the business will be able to meet its debt servicing commitments in the next three to five years) and liquidity (that your business has sufficient cash to meet commitments in the short run).

### You'll need to:

- › know your financial balance sheet position now – assets, debt and liabilities
- › ideally have your cash flow budget for the current 15/16 financial year – showing actual versus budget and at least a month by month budget for the 16/17 year
- › identify areas for improvement in your farm business and what realistic plans are in place to achieve this improvement for the 16/17 season. For example are your farm working expenses, personal drawings and debt servicing costs relatively high?
- › ideally have a business plan, budget and cash flow for the 17/18 and 18/19 outlining where improved results will come from, based on income projections agreed with your bank manager.
- › identify key risks to the business in 16/17, try to quantify the impact this will have on your budget and provide details as to what you have in place or can put in place to better manage these risks
- › obtain a milk income estimate for your milk flow and expected milk production as soon as your processor announces their 16/17 milk price

- › look at medium term profit first – you and your bank both want to know your business is on track to be profitable in the future. By looking longer term, you can consider changes to the way your business is set up and operated, as changes will take several years to take full effect.
- › seek input and advice from your 'support network', if you are planning significant changes. You will need to show your changes are considered, realistic and well planned.

Your banker can provide support and information but they are not advisors. This is your business and your banker needs to see you are in control of it and where it is going. Acting with honesty and openness is key for any interactions. A 'no surprises' policy always works best.

### Knowing where you are now

Use DairyBase, available at [www.dairybase.com.au](http://www.dairybase.com.au), to help you understand how you are positioned compared with past years. By comparing with relevant comparative data sets from your region or similar production systems will also help identify potential areas for improvement.

Ask your banker, farm consultant and accountant to comment on areas where you appear to be out of step and address these in your business plan.

**It is also important to:**

- › have a good understanding of your security – stock on hand, assets, liabilities
- › have the last three years' financial accounts and/or accounting system year-to-date position with a revised budget printed out

**Be prepared to answer the following types of questions:**

- › **Have you considered the impacts of the changes you will make to your budget?**
- › **Do you know what working capital you will need? Make sure you clearly identify and correct any potential hard-core debt that may be carried forward from previous losses and identify appropriate working capital requirements for the next 18 months to two years.**
- › **Is there any required capital expenditure?**
- › **What are your plans for personal drawings?**
- › **Have you identified the major risks to your budget and what can you do to help better manage these risk?**

**What you are going to do and what results do you expect?**

Do you have a plan for the coming 12-18 months? And a longer term business plan? Document these and be prepared to explain and discuss these with your banker.

Can you clearly communicate changes you have made this year; why and what impact it will have on your performance and profitability?

Include key production information for the current season and targets for 2016/17. Show that you have made informed decisions by including key factual information – how much grass do you grow, does your feed supply and demand match? What does this mean for supplement needs?

Be prepared to produce a current cash flow position and forecast for next season.

What milk price have you used to create a forecast budget for 2016/17? Ideally this should be your milk price as outlined by the milk income estimation provided by your processor, not industry or processor averages.

What are the other key assumptions around production, input costs and rates?

As part of your risk management plan develop a sensitivity analysis for your budget which looks at the 'what if?' scenarios around milk price, farm working expenses and production levels. This will help outline the risk and volatility your business is exposed to.

For example, what will your budget look like if milk price, farm working expenses or forecasted production are not what you initially budgeted on?

**Make sure you are on track financially and productively**

**Demonstrate that you have a monitoring and measurement plan – how are you planning on keeping this information up-to-date and what will you do with the information?**

**Make sure budgets/cash flows are built and delivered upon – in particular the cost items. Don't overcook the budget - wherever possible be a bit conservative in your assumptions and exceed expectations. Under promise and over deliver.**

**Actively running budget to actual reports and reporting these to the bank monthly with a variation report will be a show of strength in respect to monitoring and delivery.**

**Bring in support from your business partners and wider farm team, including your accountant, advisor and/or farming mentor. Having them involved in business discussions, reviews and/or bank meetings shows you are organised.**

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