What should farmers do to survive tough times?

[1] Jan L van Zyl

Tough times for farmers do not necessarily correspond to downturns in the business cycle.

Presently grain farmers have been blessed with a very large harvest due to favourable weather conditions and good prices, due to high international prices. Economic growth and higher disposable income has generally benefited agricultural markets over the past five years.

However, when markets weaken, in other words when consumers experience hard times, the market for food, drink, fibre (including wool) and tobacco changes. The sales of these products are affected by the amount of disposable income that is available to consumers. When consumers hit hard times, they still need to eat and dress and ironically alcohol and tobacco sales may even improve. However, expenditure on food is one area where consumers will cut down to afford higher repayments on mortgages and hire purchases. There is therefore a large measure of substitution (cheaper meat cuts instead of prime cuts and cereals replacing expensive protein). Consumers' buying behaviour therefore changes and farmers must expect that sales volumes as well as prices may be affected. It logically follows that farm income may be negatively affected.

Farming is credit driven with the result that farmers will experience tough times during periods of higher interest rates. Heavily indebted farmers can consider the following:

- Liquidate assets where possible, (especially non productive assets) to repay debt
- Reschedule debt over longer periods or schedule repayments in accordance with income streams
- Arrange for facilities to help bridge periods of mismatched income and expenditure
- Where produce is delivered to the retail sector, negotiate with debtors to pay earlier
- Negotiate to buy inputs at convenient and favourable conditions. Shop around and negotiate discounts for cash or bulk purchases
- Manage stocks, weigh up the cost of keeping stocks against the expected (better) selling price
- Have a well thought-out marketing strategy to manage risks, using SAFEX, interest and exchange rate hedges
- Labour, fuel and animal health costs are increasing in importance. Plan and use these inputs carefully
- In the case of livestock farmers it is essential to operate at the optimum measures credited to good stockmanship, namely lambing and weaning percentages, as improvements in these ratios often offset the effects of reduced market prices
- Remember that businesses and farming will always experience good and bad times. Build up reserves (savings and investments) in good times to survive bad times.

Savings form part of the farming operation's balance sheet as reserves – these reserves are vital for sustained financial wellbeing. If a farmer does not have to make use of credit, as a result of savings over a number of years, he or she would definitely have an edge in the market, as there would not be an interest component in the production cost.

Reserves are also essential for future investment either for expansion to maintain or improve on economies of scale or for acquiring new technologies, without which the farm would over time become uncompetitive. The greatest asset of cash in the bank is the assurance it provides that financial commitments can be met in the short term in the event of the farm income suffering a setback. The key questions when deciding where to keep savings centre on the term over which the money can be invested and the level of risk that is acceptable. ■

[1] FNB Agricultural Solutions and Marketing, 011 371 9824, jvanzyl@fnb.co.za

[2] For all your saving and investment needs visit your nearest FNB branch or contact 0860263362 for specialized advice. For FNB clients all transactions can be done telephonically making it possible to manage your funds in savings and investment accounts without leaving your farm.

"Price is what you pay. Value is what you get." - Warren Buffett