

Capturing the Upside & Buffering The Downside

Mike Boehlje, Professor of Agricultural Economics

Mike Gunderson, Associate Professor of Agricultural Economics

Michael Langemeier, Professor & Associate Director

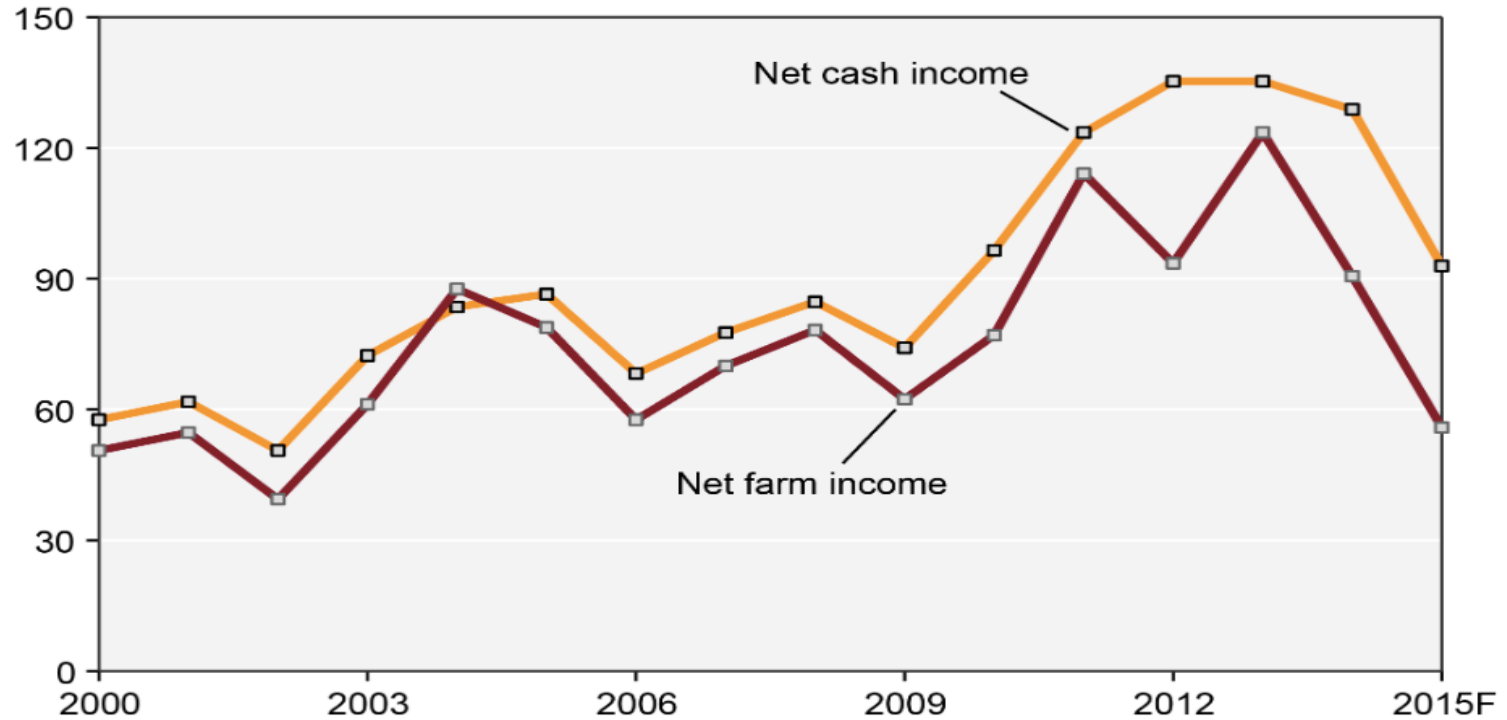


Center for
Commercial Agriculture

Capturing the Upside & Buffering The Downside Webinar
November 30, 2015

Net farm income and net cash farm income, 2000-2015F

\$ billion, nominal



Key Financial Vulnerabilities

1. Working Capital

(Working Capital = current assets minus current liabilities)

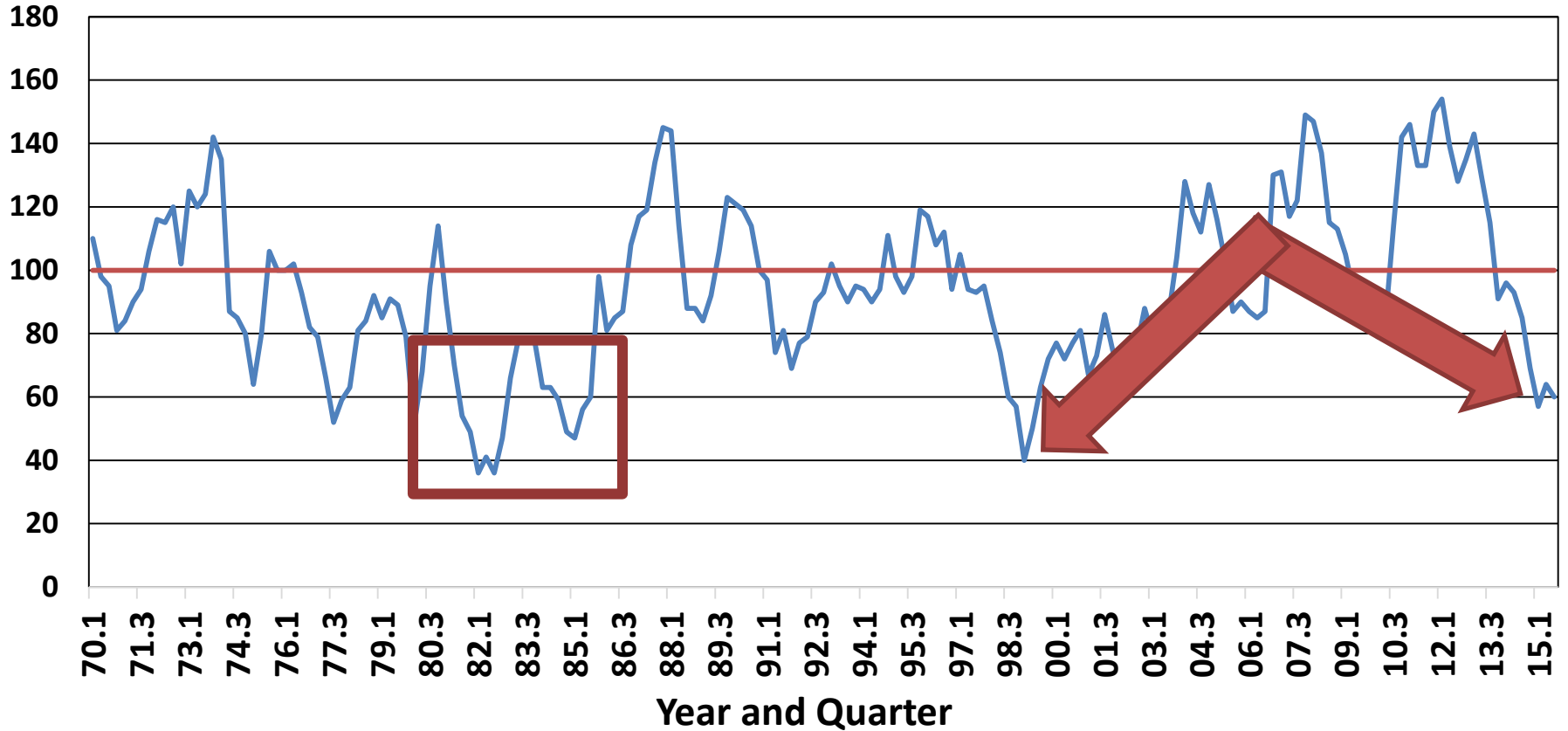
- First line of defense against financial stress
- Goal – 30% of gross revenue
- Burn rate
 - Could be \$100/acre or more in 2016

Key Financial Vulnerabilities

2. Tight Repayment Capacity

- Short repayment schedules
 - Equipment and land loans
- Reduced income and cash flow
- Chicago FRB Loan Repayment Index

Loan Repayment Index, FRB of Chicago



Key Financial Vulnerabilities

3. Solvency – Debt Load
 - Generally still strong
 - Weakening for highly leveraged
 - Few defaults or bankruptcies

How Do I Respond?

The Fundamental Premise



Be Best In Class!



Elements of Best in Class

1. Do Fewer Things Better

- What is your hedge hog?
 - What you do better than anyone else?
- Focus and intensify

Elements of Best in Class

2. Control Costs Intensely

- Efficiency/productivity is critical
- Know your cost components per unit sold

Elements of Best in Class

3. Manage Margins

- Know your margins
 - Contribution margin: revenue above operating costs
 - Profit margin : revenue above all costs
- Protect positive margins

Elements of Best in Class

4. Execute on the Plan

- Use SOP's (standard operating procedures)
- Timely operations
- Details, details, details

Elements of Best in Class

5. Buy Inputs Correctly

- Procurement mentality
 - Use a Specification Sheet
 - Sets your cost structure
 - Compare supplier offers
- Be careful about paying premiums for asset control
- Consider repairing rather than replacing

Specification Sheet

Farm Name: _____

Agribusiness Name: _____

Address: _____ Phone Number: _____

Date: _____

1. Product Performance: _____

2. Price: _____

3. Quantity or Volume Discount: _____

4. Delivery Time and Conditions: _____

5. Local Contact: _____

6. Application Services: _____

7. Financing Terms: _____

8. Warranty: _____

9. Technical Documentation: _____

10. Complaint Response Time: _____

11. Technical Support: _____

12. Information Services: _____

Elements of Best in Class

6. Plan the Logistics

- Machinery scheduling
- Input flow scheduling
- Product flow scheduling
- 24/7 operations when possible

Elements of Best in Class

7. Minimize Operating Risk

- Technology performance
 - Pest control
 - Fertility effectiveness/loss
 - Seed selection
- Marketing and pricing of inputs and products
- Government program and crop insurance participation
- Casualty and liability insurance

Elements of Best in Class

8. Assess Capital Needs and Manage Debt

- Consider leasing assets
- Use your lenders' expertise
 - Keep your lender informed
 - Lengthen payment terms
 - Fix interest rates
- Reduce capital expenditures

Best In Class Is Not New

- Return to the basics
- Dust off the old playbook

How Do We Win in Tough Times?

- Resiliency
 - absorptive capacity
 - protect your position
 - “defense”
- Agility
 - capture the upside
 - “offense”

The Bottom Line

You cannot accurately predict
the future, so position for the
challenges and opportunities



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What's New

- Feed Cost Indices for Swine Enterprise
- Buying (Selling) Inputs in the Current Business Climate
- Evaluating Your Farmland Rental "Options"
- Agricultural Productivity Growth and Regulation
- Working Capital: What Is It and Do You Have Enough?
- Feeding Cost of Gain and Net Returns for Cattle Finishing

Webinars

- November 30th: Buffering the Downside & Capturing the Upside on Your Farm
- Archive: Long Range Outlook for the Agricultural Economy
- Archive: Crop Outlook for 2015-2016
- Archive: Up, Down, or Sideways: Where are Indiana Farmland Values Headed?
- Archive: How Do You Win in Tough Times

Featured Publications

- Resources for Managing in a Financial Downturn
- 2015 Purdue Crop Cost & Return

Upcoming and Recent Events

- Managing Risk on Your Farm During a Downturn



**Join Us for our next Webinar on
December 18, 2015**

**“Making Long-Term Cash Rent Decisions
Using the Cash Rent Decision Tool”**

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