

# Managing cashflow key to business sustainability

A clear understanding of your cash position and maintaining a proactive relationship with the bank will be especially crucial over the next few months, suggests Nigel Davies.

Cashflow on all dairy farms is likely to come under pressure over the coming months as a direct consequence of the effect of Covid-19 on the UK milk market. Some cases will be more severe than others but it is essential not to ignore the situation, warns Nigel Davies of Promar.

## Demand for less milk

Farms are having to react quickly to demands to supply less milk and also to lower milk prices. There are difficult decisions to be made, balancing the likely impact on both short term and long term cash positions. For example, while

culling cows now will inject cash and reduce costs in the immediate short term, what will be the financial impact of these actions in six or 12 months?

"In any business, the saying is that turnover is vanity, profit is sanity but cash is king—and this is particularly true in the current turbulent market," he comments.

"With cashflow being squeezed, I would advise all dairy businesses to plan ahead to understand their cash position as a priority. Then, share the position with your bank."

Mr Davies, who spent 16 years with HSBC, many of them as an agricultural manager, says it is this

inability to sign a cheque that hampers a business in making good decisions, in taking advantage of opportunities that arise or even, more importantly, in being able to exist.

## Reduced headroom

Any business which is always very close to its overdraft limit in the period just before it receives its milk cheque is in a fundamentally different cash position to one which has more substantial headroom to weather the storm of a reduction in milk output or milk price.

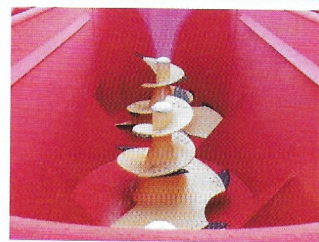
"In the next few months,

*"No business should be in the position of not having a cashflow in the current trading environment," says Nigel Davies.*

more farms are going to see that headroom reduced. Now is the time to understand what impact each 1ppl reduction in price or each 5% reduction in yield will have in terms of additional cash requirement, either by updating an existing cashflow or creating a new one. No business should

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be in the position of not having a cashflow in the current trading environment.

"How does the peak cash requirement relate to available facilities for at least four months ahead? As a rule of thumb, banking or cash facilities should be in place to support the value of at least one month's milk above the expected peak in normal circumstances."

Mr Davies says a cashflow should look at the short and longer term impact on the overdraft and advises it is important to have considered several options to manage the current situation.

### Capacity to respond

He cautions against cuts across the board. He advises carefully considering all economies, suggesting it is important that the herd is in good shape to respond when the financial situation eases.

"For example, it might be possible to reduce feed to mid and late lactation cows which are already in calf. But it could be a false economy to reduce feed to fresh

calvers as the risk is that fertility will be compromised, leading to extended lactations. This could be exacerbated if regular vet visits are cut back, meaning empty cows aren't spotted sooner.

"Another area where it is worthwhile maintaining expenditure is on good forage production. You will then have adequate stocks of good quality feed to allow cost-efficient management in the winter, whatever the external financial pressures are at that time.

"One of the keys will be the ability to demonstrate to the bank that the cost structure has been reviewed in relation to current and anticipated milk prices."

Mr Davies says one way to limit cash outlay in the short term will be to explore the opportunities



Nigel Davies.

for capital repayment holidays. In challenging times such as we face now, banks are often amenable to offering a repayment break on loans.

However, he stresses that this is only a delaying tactic. Not only will any delayed repayments still have

to be made but the interest element of the debt will continue to accrue—making the total cost of the loan higher.

"It may also be possible to reduce peak borrowings by agreeing revised terms with creditors but this should only help the cash position in the short term.

### Robust cashflows

"It will also be essential to stress test your cashflow to see how robust it is, because it is likely the situation will continue to change and you will need to have assessed the ability to cope.

"What would be the impact of an additional 1ppl fall in milk price or a £10/tonne increase in concentrate cost? Or positively, what if milk prices were to recover more quickly? Such a test can give the business a clearer insight into its long term financial future beyond this current crisis.

"It is likely that more than one action will benefit most businesses. If you are hoping that an improvement in technical performance will help compensate for lower prices—perhaps by making better quality forage—what happens if this does not happen? Do you also have a plan B?"

### Proactive discussions

Armed with this forecast you can have an informed discussion with the bank to discuss the options. Good businesses will already have communicated their underlying financial performance and forecasts to their lenders as a matter of business as usual. For others, it will be important to be proactive and approach the bank before they approach you.

*"One of the keys will be to be able to demonstrate to the bank that the cost structure has been reviewed in relation to current and anticipated milk prices."*

"Many banking teams are under increased pressure currently, due to additional requests from across different industries to get cash out of the door as quickly as possible to those businesses. In this environment, the one key action for all farms wanting additional facilities—or with facilities shortly due to be reviewed—is to join the queue early and get in touch with your bank before you would normally do.

"Importantly, however you contact them, be sure to keep a record of that contact as something that you can refer back to if needed. Where the issue of a delay in paperwork or change of bank personnel occurs, then such a record can be the difference between having the cash or not.

When discussing borrowing requirements with the bank, Mr Davies stresses the importance of being realistic and providing supporting evidence.

### Realistic planning

He says the bank will need to understand all the assumptions and see a realistic explanation of your requests and the actions you plan to take. They will want to see evidence to support key things like numbers of animals and technical performance, particularly if the plan to repay borrowings is based on improvement in performance.

"One of the most important things is attitude. Take a business-like approach—ideally using third party advice to challenge and help refine the plans. Then see the bank as a key partner in your business, not just someone you have to see when the situation is challenged.

"Most UK banks want to understand the issues facing dairy farm businesses. Sharing your plans, strategy and track record will help them better understand your business and give a head start in attracting finance at this challenging time" Mr Davies concludes.

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