



How did your business get to where it is today? Did you or your predecessors have a vision to set direction and plans in place to make it happen or did it just happen with plenty of hard work and taking advantage of opportunities that came along?

Most of you would have dreams of what you would like to achieve. You might wish to:

- the operation by buying or leasing more country;
- hand over the operation to the next generation;
- pay off debt;
- have or maintain a profitable operation to allow you to continue doing what you love;
- develop your property;
- accumulate off farm assets to reduce your dependence on your operation;
- work less and have a better life style;
- etc etc. It is not for me to limit your dreams!

Many business owners (including primary producers) go from year to year without really knowing where they are going. They often make decisions without really planning ahead to see what the ramifications are.

Before you can plan for the future you need to know where you are now.

You need to know your "balance sheet". Your balance sheet is like a snap shot of

Where are you heading?

your wealth position at a given point in time. Your net wealth is your assets less your liabilities.

This is not the balance sheet your accountant sends you each year as part of your financial statements. Your accountant's balance sheet is prepared at cost so the asset items shown are typically well below their market value whereas the liabilities are what is actually owing. Instead your balance sheet should be like the statement of position or assets and liabilities prepared for your bank. A conservative value should be put on your land assets. Livestock, plant and equipment and crops (with care) should be shown at market value. Each year you should do this exercise. Ideally your net wealth should be increasing year by year (excluding growth in land values. It is dangerous to rely on capital gains alone to generate wealth).

Know where you are now

You need to know what cash flow your operation is capable of generating.

Firstly look at past year results. Get your accountant to prepare source and application of funds reports (or where has your money gone reports). These will be more meaningful than the tax profit and loss statements. A profit and loss statement shows what profit you have generated. You may be profitable but the profits may not be large enough to meet your cash flow requirements. A source and application of funds report shows the cash profit, adds other funds that have come in (eg more borrowings) and then shows where those funds went (eg drawings, debt reduction, purchase of

plant, tax). This report (normally only one page) will give you a very quick and easy to follow summary of what happened during a year. From this you should be able to see what your cash flow has been in past years.

Next prepare cash flow projections. This should be over a period of years, 3, 5, 10 or whatever you think will be enough to guide you. This is not crystal ball gazing. We are not trying to predict the future. We are trying to model what cash inflows are capable of being generated with your existing cattle herd, cropping program or the likes, and then look at whether that cash is enough to cover your outgoings (expenses, living costs, tax, loan repayments, plant and equipment purchases etc).

If there is a shortfall this year will it correct over following years? Can you adjust spending to avoid the need to borrow more? For example you may

choose holding off some capital spending or negotiate with your bank to make interest only payments until you have surplus funds to allow you to make capital repayments. If there are surpluses what will you do with them? Are they sufficient to fund your dreams?

You can play with the projections to see what impact different strategies may have. These projections should incorporate projected balance sheets to give an indication as to how your net wealth may change over time.

I am sure all primary producers would agree that it is harder than ever to make a living on the land. In the past it may have been possible to work hard and generate a profit and accumulate wealth. Now it is more important than ever that you plan where you are going. On the one hand it is better you know now that your operation is unsustainable and make a decision then waiting for your bank manager to say "no more". On the other if you have a successful operation generating cash surpluses it is important that you keep it that way and don't over commit yourself in the process of trying to achieve your dreams. By doing and regularly reviewing such planning and forecasting, you will know if you are on track to achieving your goals.

This advice is general in nature and readers should seek professional advice regarding their personal circumstances.