

Long & Short Term Strategies in Managing Volatility

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Agreed so far:



Volatility



Inside the farm gate

What is a Price Taker?

A seller that has no control over the price of the product it sells



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Profit > or =
Drawings + Tax + Cap Ex + Loan
Repayments

Managing Volatility

- Put Simply....
- Managing Volatility = Cashflow management + Production efficiency
- Who needs to apply it?....
- Everyone - but particularly New Entrants and Expanding farmers.

Key Factors Influencing Volatility

1. Attitude:



Pessimism



Euphoria

Management Style - Potentially Reactionary

Key Factors Influencing Volatility

Attitude cont.

- Medium Term Pro-Active Approach is best
- Considered
- Consistent - try to avoid being reactionary
- Simple farm system preferred

Key Factors Influencing Volatility

2. Farm Management

3. Managing Expansion



Key Factors Influencing Volatility

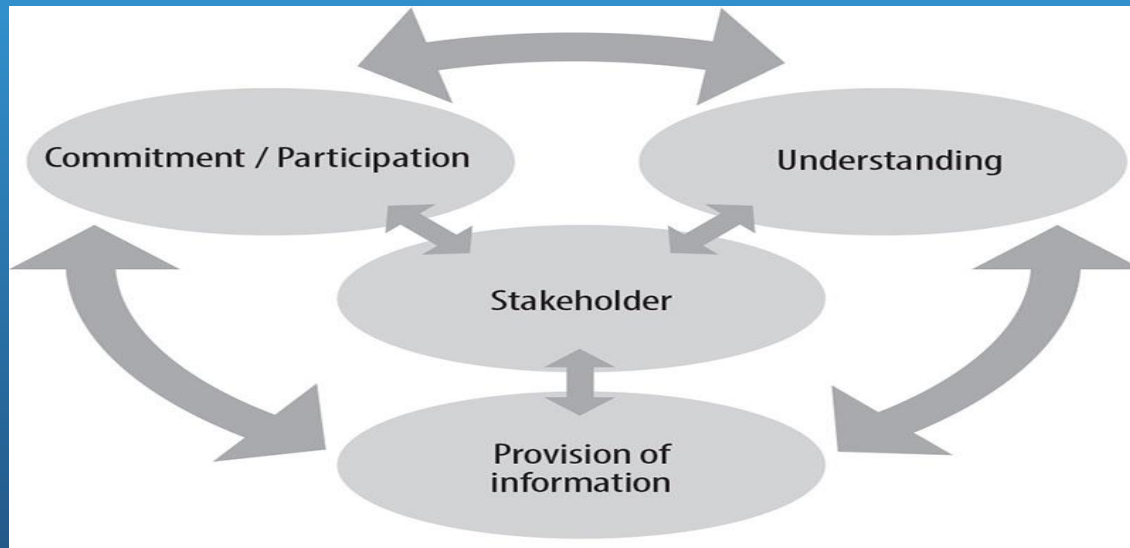
4. Financial Management

- Costs of production
- 5 year rolling business plan
- Cashflow projections (Live)
- Periodic Review of family drawings



Key Factors Influencing Volatility

5. Communication with key stakeholders:



- Good information = perceived lower risk = better interest rate & terms

Funding Volatility



1. Building Reserves in Financial Assets & Livestock
2. “Pushing” Suppliers & Co-Ops
3. Tax Planning
4. Bank Lending

Summary

- Cashflow Focus & Farm Practice Management
- Attitude
- Expansion Planning
- Communication
- Building Reserves
- Supplier Credit
- Tax Planning
- Appropriate Banking

Conclusions

Volatility is a fact of life in the dairy sector

Managing volatility is not a list of quick fixes applied when milk prices fall.

Successfully Managing volatility is about:

- Establishing a lean and consistently profitable enterprise
- Consistently reviewing and monitoring performance and cashflow
- Establishing a culture of incremental improvements