

The Business Of Farming – Control

It is not the situation but what you do about it that determines the future

By Stan Parsons

In the last article I discussed the importance of making strategic level decisions and of holding 'Working On The Business' (WOTB) meetings. However, there is not much point in holding a WOTB meeting, making a number of decisions, and then not acting on those decisions. The decisions taken usually cover a very broad spectrum. In typical family businesses with several members the question ultimately arises as to whether to split the business or to keep it going as a single concern. That in itself is a topic that could fill a book. On the other hand the decision may concern adding a new enterprise or simply whether to computerise the books. Whatever the decision it frequently requires follow-up work, some research and inevitably it has an impact on the bank balance.

That impact on finances is the key to translating decisions into action. I know you are all familiar with that nasty word "cashflow" – something that banks insist you produce and earnest young men talk about at Farmers Association meetings. Because they have to be done, and because we are not good at numbers, we delegate the job to our spouse, or the bookkeeper, in fact anyone else. But that's a huge mistake. I would like to ask you to think about the cashflow not as a lot of numbers that one files with the bank and promptly forgets about, but rather as *the minutes of the meeting written in dollars*.

Because every decision, every action, has an impact on the bank balance these "minutes" are the ultimate control technique for your business. As I have said before records are frequently a waste of time. Budgeting on the other hand puts you in firm control of the business. Using records to control your business is a bit like driving down a curvy road using the rear view mirror to see where you've been while budgeting is looking ahead to see where you're going.

But lets pause here a minute and think about this word "budget". It's a totally unsatisfactory word for what I have in mind when we talk about the minutes of the meeting written in dollars. "Budget" conjures up thoughts of restrictions or limits that may not be exceeded - in the sense of "he's over budget" – in the way that governments usually are.

Your cashflow on the other hand is alive; it's your lifeline to keeping your finger on the pulse of the business. Rather than restricting, the cashflow is a guide, a plan of action. It incorporates the major decisions your team has made at the WOTB meetings – reflecting changes and actions. There will be times when the "budget" is exceeded. There will be times when unexpected opportunities or obstacles arise requiring a change of plans.

Properly constructed it means that thought has been given to how to restructure the business to be more profitable and to satisfy what each member of the family expects out of the business. It will reflect changes in overhead costs, improvements in gross

margin and in size of the business, but more than that it will show *when* those actions will occur. Without a deadline nothing happens. We all know that. There are plenty of reasons why we put off those difficult decisions.

Deadlines make the cashflow a powerful control technique. At least once a month one of the regular items at the routine WITB (Working In The Business) meeting should be the comparison of what actually happened with what was planned (note, not just forecast) to happen. That's what keeps you on the road, able to negotiate the curves, knowing when to accelerate and when to slow down.

Monthly cashflow control provides peace of mind. It enables you to sleep at night and it is a very important tool for keeping everyone in the team up to date and informed about what is going on. Just incidentally your bank manager may be pleased to know that you are a serious business person who knows what you are doing.

In my next article I will discuss another tool, the bOTSWana model, which is very useful in evaluating the strengths and weaknesses in a business.

Dr. Parsons who developed the Ranching For Profit School is in the business of putting profit into agriculture and small businesses. His latest book is called "If You Want To Be a Cowboy, Get a Job". For more information visit www.ranchmanagement.com or phone 707/429-2292