How cash flow planning can **benefit your business**

Better planning **starts here**

Developing a cash flow plan has many benefits. It provides valuable insight, measures your progress and gives you a clear financial picture. In this guide, we'll show you how cash flow can:

- Give you the information to take on new marketing opportunities and make informed purchases
- Help you focus on business expansion and track how well you're progressing toward future goals
- Maximize your relationship with your lender by having a blueprint to identify a loan repayment plan that works for both of you

Quick tip

How profitable is your business compared to others in Canadian agriculture? Find out with the **Scorecard.TakeaNewApproach.ca**

What is **cash flow?**

Cash flow is an estimate of all cash receipts and expenses expected to occur during a certain time period. Estimates can be made monthly, bi-monthly, or quarterly, and can include farm items as well as non-farm income and expenses. Cash flow looks only at money movement, not at net income or profitability – but a healthy cash flow is a good sign that you're profitable.

Cash flow budget

	January 2020	February 2020	March 2020	April 2020
Beginning cash	-$ 100,000	-$ 75,448	-$ 50,788	$ 101,431
CASH INFLOW				
New loans borrowed	$ 320,000	$	$	$ 40,000
Wheat		80,000	70,000	
Canola	25,000	50,000	50,000	
Accounts receivable		30,000	37,500	
Other revenue (custom work, etc.)		30,000		
Cash advance				
From personal savings	20,000			
TOTAL CASH INFLOW	**$ 365,000**	**$ 190,000**	**$ 157,500**	**$ 40,000**
CASH OUTFLOW				
Utilities – monthly plan	$ 300	$ 300	$ 300	$ 300
Repairs			5,000	
Fuel / Heat	500		500	2,500
Fertilizer / Chemical		500		40,000
Seed / Plants				32,000
Crop insurance				17,500
Property taxes				
Crop input loans		125,000		
Cash advance		40,000		
Capital purchases	320,000			
TOTAL CASH OUTFLOW	**$ 320,800**	**$ 165,800**	**$ 5,800**	**$ 92,300**
Interest on operating	$ 340	$ 232	$ 173	$ 333
FCC loan payments	20,000			
Other loan payments	508	508	508	508
TOTAL OUTFLOW	**$ 341,648**	**$ 166,540**	**$ 6,481**	**$ 93,141**
Add: off-farm	$ 3,200	$ 3,200	$ 3,200	$ 2,000
Less: living	2,000	2,000	2,000	2,000
ENDING CASH (LOC)	**-$ 75,448**	**-$ 50,788**	**$ 101,431**	**$ 48,290**

Know your **cash flow**

Regularly assess your cash flow needs and note the time periods with the largest shortfall and surplus amounts. This will help you determine periods with surplus funds to set payment schedules.

EXAMPLES:

- Farms usually require large amounts of cash in the spring for crop planting and have large sources of funds in the fall from cash crop sales
- Feedlots usually require large sums of cash to purchase feeder cattle in the fall and receive large amounts of cash in the spring when the feeder cattle are sold
- Dairy operations generally have a steady stream of revenue and find opportunities to diversify
- Vineyards, orchards and some perennial crops need several years to grow before first harvest and income

So what should you do when you're cash positive – or cash negative? Scenario planning can help answer these questions.

What is **scenario planning?**

Scenario planning helps you prepare for those “what if” situations. How do you plan for a rainy day? Is now the time to buy a new tractor? What other revenue streams are accessible to you? Is there appetite for a supplemental off-farm job?

Run scenario plans with your monthly, quarterly or yearly finances. These plans can identify periods where cash will be tight and when cash will be available. Knowing this can help you with major decisions and long-term planning.

Whether you're cash positive or cash negative – here are a few guidelines to follow:

WHEN YOU HAVE CASH

Hold onto your cash. You may need this for operation expenses in the coming months.

Evaluate income statements and verify that your cash availability also means you're generating a profit.

Buy inputs in advance and consider forward contracting your commodities.

Assess future expansion or purchase plans. Is now the time to take on that value-added opportunity?

Pay off more on your loans.

WHEN YOU'RE SHORT ON CASH

See where you can cut costs, reduce labour or find efficiencies. Dig into the fixed and variable costs within your operation.

Find ways to make extra sales. Is there equipment you don't use you can auction off? Can you rent out storage space or take on new work?

Diversify activities to provide year-round cash flow. If your income comes in the fall, include something that produces income in the late spring.

If your operation can't handle an interest spike, lock in your rates.

In any scenario, your FCC representative can help.

Call: 1-800-387-3232 | fcc.ca/Contact

Cash flow and loans
Tips from your lender

Depending on your situation, a loan could be a good option to help manage your cash flow. Here are a few ways to use cash flow planning to manage loans:

- Short-term loans (inputs, livestock, equipment): Use cash flow planning to determine your ideal terms and repayment schedule.
- Long-term loans (land, barns, major construction): Estimate both fixed and variable rates in your cash flow forecast. If interest rates rise, will you still be able to make your loan payments?
- Multiple loans: Mix it up with short, medium and long-term options. This will provide a cushion if interest rates rise and let you take advantage when interest rates are low.

Golden rules to keep in mind:

- Monitor operating lines. Make sure money spent on expenses is paid back within the year or production cycle.
- Don’t put capital purchases on your operating loan. This could tie up funds when you need money for input purchases.
- Finance assets for as long as you can depreciate them. If an asset (like machinery) will depreciate over 10 years, finance it over 10 years.
- With cash on hand, consider speeding up your debt repayment. An extra 5% can go a long way.

The most important thing you can do? Talk with your lender – they’re here to help!

Let’s work together

Contact an FCC representative near you

Call: 1-800-387-3232 I fcc.ca/Contact

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