Strategies To Deal With a Downturn

Years ago, I was helping a family business in the oil and gas industry. Times were good, and they were enjoying both growth and profitability. But, they knew their business was cyclical, and at some point, the financial conditions would change. They wanted to lessen the impact of the impending downturn.

During that meeting, we put together a list of ideas. We identified the leading indicators of a slowdown in the business so we knew when the downturn would show up locally. We listed the equipment we might sell early before others flooded the market. We analyzed what jobs were less profitable and why. We talked through the list of employees, picking out who might be ready for retirement or who might work well in another business.

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Sure enough, the downturn arrived. It was still hard. But, as soon as it started, the family pulled out the list and began diligently assessing options and making decisions.

Agriculture is also a cyclical business, and row-crop economics are facing headwinds. Here are a few contingency-planning categories to consider if you are working through a downturn on your farm.

Understand your financial performance. A good place to start is analyzing your income and expenses, and clarifying what business activities are producing a profit. Use your accountant, lender or a financial analyst to help you understand what makes or loses money so you understand your "burn rate" (the rate at which you are losing equity or working capital). You will then have a good basis for potential decisions and understand the level of urgency.

Reduce expenses. An obvious place to focus is on reducing expenses. From crop inputs to employee costs to your family living expenses, scrutinize everything. Be cognizant that cuts in some expenses, like crop inputs or fertilizer, may produce future challenges related to yield or soil health. Where can you cut expenses without significantly affecting future crop quality?

Provide services. If you have excess labor and equipment, consider providing services like spraying, planting or harvesting to other farms. You may also have people with other abilities who might generate revenue in areas like technology, construction, demolition, earth-moving or manure-hauling. These strategies need a profitability analysis to make sure you do not lose more money.

Collaborate with neighbors. Agriculture is capital intensive, and many neighbors have similar equipment. Are there opportunities to share? Perhaps you can work with a neighbor who is better at grain marketing and pool your bushels to gain more revenue or financial flexibility. Is there a chance to share a mechanic or pool labor? While agriculture is known for independent operators, some farms I know are starting to work together as neighbors.

Sell assets. Selling land or equipment can be more difficult. The equipment market may be saturated, and selling land is often a hard decision. Also, beware of the tax impact of selling assets, particularly those with a low tax basis, as you may face capital gain or income tax obligations. Once you know the tax effect of selling assets, it may make sense to strategically sell certain assets to generate cash or reduce debt.

Speaking of debt, stay in close communication with your lenders. They likely have good ideas based on their observations of other operators. Another area to consider is off-farm employment as a steady income stream with benefits such as health insurance that can help the farm.

Dealing with a downturn is never easy. Your best chances to make it through are enhanced by open communication and getting all ideas on the table. ///

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