Y2K, A BUDGET FOR 2000

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Tis the season for the cost conscious producer to generate a cash flow budget for next year. The cash flow budget is the mechanism used for projecting your business performance under specified conditions. It is developed after most of the business plans are tentatively formulated for the coming year.

The cash flow budget, once developed, is useful to project your cash flow needs so that timing of lines of credit or loan repayments, can be optimized. It is a tool for those who desire to tighten cost controls, those who are planning major changes, such as herd growth or those that need to be very conscious of risk situations due to high debt obligations.

<u>Preparations</u>: The required steps preceding budget preparation are (1) analysis of the recent cash flow situation and (2) development of a business plan for the coming year. To accomplish #1, review your 1998 DBAP report which provides help in analyzing your 1998 cash flow situation and strengths and challenges of your business over time and relative to others. Next, review your 1999 cash flow year-to-date summary.

For #2, determine your 2000 production goals, especially the expected number of cows, your DHIA projected cow due dates and your estimate of their projected productivity. Finally, study the available projections for milk and major input prices (especially feed).

<u>Calculations</u>: Your financial software probably provides the necessary calculations and summary. Producers without computer access should consult your accountant, banker or extension agent for worksheets. If you have a computer with spreadsheet capability, but lack worksheet files, give me a call.

<u>Analysis</u>: The advantage of computer spreadsheets for calculating future cash flows is the ability to change an estimated value (such as a milk price) and instantaneously get a revised output. Thus, you can easily and quickly test your planned cash flow for sensitivity to changing economic or production circumstance. For example, you could run the projections with milk prices at several incremental levels and graph the resulting operating profit margin.

With this sensitivity analysis, you will better understand your break even production level (milk per cow and/or number of cows in milk), break-even milk price, etc. This effort can be incredibly useful to producers who

- **desire to tighten cost controls**
- **are planning major changes, such as herd growth**
- **need to be very conscious of risk situations due to high debt obligations.**

What is your projected break-even production level for 2000? Will projected revenues be short of your projected expenses? If so, when? A cash flow budget is a useful tool to help you prepare for the future. It is time to prepare a budget for 2000.