



Cash Flow Management:

Monitoring & Controlling Cost of Production through
Monthly Cash Flow Budgeting


PA Center for Dairy Excellence
Dairy Profitability Forums
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Cash Flow Management: A key risk management tool


TOPICS

- Understanding Cash Flow Management 
- Know Your Numbers
 - Cost of Production
 - Projected Cash Flows
 - You cannot manage what you do not measure
- Budgeting and Control Tools
 - DairyCOPS
 - Monthly Cash Flow Budgeting Spreadsheet




Cash Flow Management & Control

- Challenge of Volatile Milk Prices
 - Managing the Down Cycles
- Challenges of 2009
 - Number 1 – Managing Cash Flow
 - Number 2 – Managing Cash Flow
 - Number 3 – Managing Cash Flow
- **Profits \neq Cash Flow**
- Understanding Cash Flow
 - Sources and Uses



Cash Flow Management & Control


- Shifting Management Priorities
 - In down price cycles CASH is KING
 - **MANAGE ACCORDINGLY!**
- A decision that might improve *long term profitability* is **NOT** an option right now if it *does not improve cash flow*

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Cash Flow Management & Control

- **SOURCES OF CASH FLOW**
 - Operations
 - Investing
 - Financing
 - Reserves

When prices are down and margins are limited,
You will likely have to *analyze* and *utilize* all FOUR!


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Cash Flow Management & Control

- **Cash flow from Operations**
 - Components
 - Revenue
 - Expenses

Management and Control of both important

- Cutting Costs \neq Improved CF
 - *Marginal Cost vs. Marginal Return*

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Cash Flow Management & Control

- Cash from Investing Activities
 - Capital Purchases - Outflow
 - Capital Sales - Inflow
 - Asset Sales (Excess Heifers, Timber, NPA)
 - Gifts and Contributed Capital
- Liquidating capital assets might be necessary
in down price cycles



Cash Flow Management & Control

- Cash from Financing Activities
 - Loans – Inflows
 - Operating Loans
 - Capital Loans
 - Principal payments - Outflows
 - Vendor Credit – limited in 2009




Cash Flow Management & Control

- Cash from Reserves
 - Savings/Cash Reserves
 - Inflow or outflow
 - Traditionally not well utilized
 - Tax Planning



Cash Flow Management & Control


- **Know Your Numbers**
 - Cost of Production
 - What COP
 - Cash Flow or Profitability
 - Remember:
 - **PROFITS ≠ CASH FLOW**



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Cash Flow Management & Control
Know Your Numbers

- **Cost of Production – Components**
 - Operating Expenses - Variable
 - Not all variable expenses are always variable
 - Overhead Expenses - Fixed
 - Interest & Depreciation (Profitability)
 - Interest & Principle (Cash Flow)
 - Others (Insurance, Repairs ??, taxes - DIRT1-5)
 - Amount of Product Sold - Milk




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Cash Flow Management & Control
Know Your Numbers

- **Cost of Production – Controllable Factors**
 - Expenses
 - Cost control measures (variable expenses)
 - Forage Quality, Labor efficiency, Repro Efficiency, Vet
 - Investment Strategies (fixed expenses)
 - Milk Sold
 - Feeding Management
 - Cow Comfort
 - Udder Health & Repro

Which do you
have greater
control of ?






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Cash Flow Management & Control

Know Your Numbers




- Cost of Production – Controllable Factors
 - How about Milk Price?
 - **YES!**
 - Components – Impact Basis
 - Udder health – Bonuses

Cash Flow Management & Control

Know Your Numbers

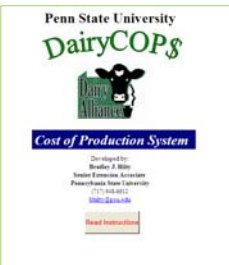
- Monthly Surplus / Deficit
 - Cash Flow from operations must cover:
 - Fixed costs (Debt Service)
 - Owner Draws
 - Growth of Business (Investments)
- If not, how will you cover it?
 - Operating Line of Credit
 - Can Investments be financed?








Cash Flow Management & Control

DairyCOP\$ - A tool for calculating COP

- Why Bother?
- You cannot manage what you do not measure!
- Knowledge = better ability to control
- System focuses on Management COP



Profit Strategies: Know Your Numbers – Cost of Production

Reports

- Detail
 - Progressive Breakdown
 - Feed
 - Feed
 - Crop Expenses
 - Crop Income Adj
 - Labor
 - Owner Draws
 - Machine
 - Custom Hire Income Adjst

	Total Expenses	Expense/Cwt
Basic Production Expenses	\$ 1,728,332	\$9.27
Feed	\$ 1,728,332	
Breeding & Registration	\$ 34,900	
Veterinary Expense	\$ 174,500	
Livestock Expense	\$ 215,386	
Supplies	\$ 87,223	
Utilities	\$ 150,312	
Labor	\$ 1,038,048	\$5.92
Machine Expense	\$ 254,132	\$1.88
Replacement Expense	\$ (213,846)	(\$0.82)
Marketing & Distribution Expenses	\$ 328,650	\$1.25
Facility Expenses	\$ 84,714	\$0.36
G&A (General & Administrative)	\$ 218,272	\$1.23
Capital Expenses	\$ 772,278	\$2.88
Total Overhead Costs	\$ 991,189	\$3.75
TOTAL EXPENSES	\$ 8,116,662	\$39.38

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Profit Strategies: Know Your Numbers – Cost of Production

Reports

- Summary
 - Progressive Breakdown
 - Basic Production Exps
 - Labor
 - Replacements
 - Marketing and Distribution
 - Facility
 - G&A
 - Capital
 - Net Margin/Cwt

1 Basic Production Expenses	\$9.27
2 Basic + Labor Expenses	\$15.19
3 Basic + Labor + Machine Expenses	\$16.17
4 Basic + Labor + Machine + Replacements	\$14.36
5 Total Variable Costs (+ Marketing & Distribution)	\$15.60
6 Total Fixed Costs	\$3.75
7 Total Costs	\$19.35
Less Other Income	(\$1.10)
8 Net Cost of Production	\$18.25
Price Received Cwt Milk	\$21.30
Net Margin/Cwt	\$3.05

Feed Cost per Cwt Milk (Feed + Crop + Machine Expenses)	\$8.81
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Profit Strategies: Know Your Numbers – Cost of Production




Reports

- Evaluating COP
 - Progressive Breakdown
 - Adjusted for Other Inc
 - COP vs Milk Price
- Net Margin/Cwt
- Trends
- Planning
 - COP vs Projected Milk Price
 - What costs have changed

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Using Your Cash Flow Projections

- **Cash Flow Planning**
 - Not a once and done chore
 - Adjustments likely necessary through out year
- **Skills improve with practice**
- **Use your projections**
 - Comparison to actual
 - This is what you said you were going to do
If you are not doing it, why? (Are reasons controllable?)
 - What management interventions can you implement.

Cash Flow Management & Control Summary

- **Volatile Markets**
 - Demand strong cash flow management skills
- **Must know COP if you want to manage it**
 - Step 1: Calculating your COP (DairyCOPS)
 - Step 2: Budgeting enables management & control
 - Step 3: Compare to actual performance
 - Step 4: Intervene when and where it's needed
- **Tools are available to help you do this!**
 - DairyCOPS & Monthly Cash Flow Budgeting SS
 - Others methods exist (but use something)

Upcoming Finance Workshops


Check out Dairy Alliance program guide:
www.dairyalliance.org

- **Implementing Sound Accounting Principles and Practices for Dairies**
 - Brown's Country Kitchen, Portersville, PA - **Dec. 17, 2009**
- **Introduction to QuickBooks for Dairies**
 - Mercer Co Ext. Office – **Jan. 13, 2010**
- **Advanced Accounting (Focus on Reporting and Analysis)**
 - Penn State Harrisburg, Middletown, PA - **Nov. 16-17, 2009**
- **Dairy Technology Conference**
 - Western PA, Mercer Co. Ext. Office, - **Feb. 18, 2010**
 - Follow up hands on Workshop - **Mar. 11, 2010**






For your reference...



Dairy Alliance website:
www.dairyalliance.org

Dairy Alliance Business Information Management Tools:
<http://dairyalliance.psu.edu/im/organization>



Questions?

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