



# BREAKING BARRIERS

## Analyze for Growth

Ashley Arrington

AgriAuthority

**Top Producer**  
SUMMIT

#TPSummit19

## 3 Types

- 1 -Planned Expansion
  - Additional acres
  - Bringing Family In
  - New Purchase
- 2- Differentiated Expansion
  - Same Business PLUS something new
  - Row crop add cattle
  - Add new crop (expanded offering)

## 3 Types

- 3 – Growing for the sake of growing
  - Works well sometimes
  - Often a split second decision
  - One of the Top 3 reasons I've seen for why businesses fail
  - Bigger is not always better

## Analyze, Analyze, Analyze!!

- Analyze ALL aspects of the planned expansion
  - If it is additional acreage –
  - What about logistics?
  - How long is the lease?
  - Do you have enough labor?
  - Do you have enough equipment?
  - Will you need additional operating funds?
  - It boils down to more than just variable costs. Sometimes expansion requires additional capital as well as additional debt payments.

## Analyze, Analyze, Analyze!!

- Analyze ALL aspects of the planned expansion
  - Making a land purchase
  - Same questions as adding acreage – logistics, equipment, labor, etc...
  - Does the payment fit?
  - How does it impact your equity position/debt to asset ratio?
  - How will your working capital be impacted?

## Example

<u>Includes addition of new acreage</u>	<u>2019 Projection</u>		<u>2018 Actuals</u>
Corn	\$342,000	Corn	\$338,850
Cotton	\$418,125	Cotton	\$392,360
Peanuts	\$545,000	Peanuts	\$487,625
Cotton Seed	\$59,414	Wheat	\$0
Peanut Stock Payments	\$28,000	Peanut Stock Payments	\$28,000
FSA/ CSP Payments	\$90,000	FSA/ CSP Payments	\$84,432
Add: Interest	\$19,500	Custom Work & Rent	\$32,687
<b>Total Income</b>	<b>\$1,502,039</b>	<b>Total Income &amp; Adj.</b>	<b>\$1,363,954</b>
<b>Expenses:</b>		<b>Expenses:</b>	
Crop Expenses	\$967,845	Crop Expenses	\$942,948
<b>Total Expenses</b>	<b>\$967,845</b>	<b>Total Expenses</b>	<b>\$942,948</b>
<b>Available for D/S</b>	<b>\$534,194</b>	<b>Available for D/S</b>	<b>\$421,006</b>
<b>Debt Service:</b>		<b>Debt Service:</b>	
Peanut Loan	\$28,881	QB Peanut Loan	\$3,761
LOC (Renewal)(interest)	\$19,500	Qnbt (Renewal)(interest)	\$19,500
<b>(R/E FSA) - NEW</b>	<b>\$100,750</b>	RE FSA Current	\$59,944
<b>(R/E Bank) - NEW</b>	<b>\$260,000</b>	RE Bank Current	\$59,600
FSA (R/E & Equipment)	\$14,000	FSA (R/E & Equipment)	\$58,376
John Deere	\$50,000	John Deere	\$113,437
GMAC	\$12,000	BBT Truck	\$8,208
<b>Total Debt Service</b>	<b>\$485,131</b>	<b>Total Debt Service</b>	<b>\$322,826</b>
<b>Excess Cash</b>	<b>\$49,063</b>	<b>Excess Cash</b>	<b>\$98,180</b>
<b>Coverage</b>	<b>1.10</b>	<b>Coverage</b>	<b>1.30</b>

# Analyze, Analyze, Analyze!!

- Analyze ALL aspects of the **differentiated expansion**
  - Row crop PLUS something – cattle, compost, trucking, etc...
  - How much of an upfront investment will it take to get started?
  - Can I start with my own cash or will need to borrow some money?
  - Can I use my current labor force? Need to add more?
  - Will it support itself independently of the current operation?

## Analyze, Analyze, Analyze!!

- Analyze ALL aspects of the **differentiated expansion**
  - Expanded offering – Ex: Adding on cotton but not new acreage
  - How much of an upfront investment will it take to get started? New equipment?
  - Where will I sell my expanded offering?
  - Can I use my current labor force? Need to add more? Custom work?
  - Will it change my monthly cash flow needs (timing) and/or LOC needs?



# BREAKING BARRIERS

## No Cotton

FSA	\$65,000.00
Crop Income	\$2,325,000.00
Other Farm Income	\$52,000.00
Off-Farm Income (Net)	
Total Gross Income (A+B+C+D)	\$2,442,000.00
Total Cash Expenses (Table 26)	\$987,238.29
Net Cash Income (E minus F)	\$1,454,761.71
Loans and Other Credit	
Interest	\$0.00
Balance Available for Debt Payment(G+H+I)	\$1,454,761.71

## Shift ½ peanuts to Cotton only consider variable cost

FSA	\$65,000.00
Crop Income	\$2,321,015.63
Other Farm Income	\$52,000.00
Off-Farm Income (Net)	
Total Gross Income (A+B+C+D)	\$2,438,015.63
Total Cash Expenses (Table 26)	\$902,904.98
Net Cash Income (E minus F)	\$1,535,110.64
Loans and Other Credit	
Interest	\$0.00
Balance Available for Debt Payment(G+H+I)	\$1,535,110.64

## All costs considered

FSA	\$65,000.00
Crop Income	\$2,321,015.63
Other Farm Income	\$52,000.00
Off-Farm Income (Net)	
Total Gross Income (A+B+C+D)	\$2,438,015.63
Total Cash Expenses (Table 26)	\$1,012,904.98
Net Cash Income (E minus F)	\$1,425,110.64
Loans and Other Credit	
Interest	\$0.00
Balance Available for Debt Payment(G+H+I)	\$1,425,110.64

## The Down Side of Growth

- Growing for the WRONG reasons
  - Growing for the sake of growing. Mindset ----->
  - Bigger means more money.
    - Wrong. I have looked at many P&Ls and have seen 1,000 acre operations have higher net incomes than 10,000 acres.
  - I have everything I need to expand, the only new cost will be rent (or initial investment).
    - Often wrong. Additional labor, fuel, operating line needs, wear and tear on equipment, etc...
  - Split second decisions – “under pressure”
    - Land owner calls “I’m offering to you first, but if you don’t take it I’m calling Joe.”

- Planned in “advance”
  - Enough time to analyze all aspects discussed, and put real numbers on paper to make a decision.
  - GET OTHERS INVOLVED!!
    - Farm Manager – Ask about current labor force. Yes, you know what is going on but they may know something you don't. They may have reason to believe a key employee might be leaving, might have had a few hiccups with equipment they fixed, etc...
    - Financial Manager/Accountant - How did last year look? Run the projections based on historicals to see a projection with and without expansion. Ask what financial risks you currently have that might be exploited or lessened.
    - Banker (you knew this one was coming) – If you will need additional operating funds, or if you are purchasing they may have some insight into the market you may not know about.
    - Trusted Peers – Ask those who have expanded multiple times. Those that reduced their operation size. Here the why to both sides. Pros and cons. What worked and what didn't. Why it didn't work?

## Grow Smart

- Plan everything.
- Analyze everything.
- Ask too many questions.
- Set yourself up for multiple successes, no matter how small. One small successful expansion beats a large failure any day!!

# Questions?

[Email - ashley@agriauthority.com](mailto:ashley@agriauthority.com)

Twitter - @AshleyLArring