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PLANNING IN GOOD TIMES

Jun 5, 2007 4:12 PM, By David Kohl



Josh, who is a lender and a student in our online training program, asked an excellent question pertaining to a previous article in this column concerning failure to plan in good times. What are some things for ag lenders to look for in the producer who is a proactive planner?

- First, a good planner has prioritized short- and long-term goals in writing. They will pay close attention to and distinguish between needs and wants.

- Second, they don't make a long-term decision based upon short-term prices and outlook. Today cotton is being replaced by corn and soybeans. In some cases rental ground land rents and acquisitions are increasing dramatically. This not only increases the cost of production, but reduces the profit margin and eventually gets the producers down to a breakeven level, sometimes quickly.

- Third, a good producer executes and sells in profit making situations and, yes, makes a profit and pays some taxes. Too many hold out for the home run only to miss the money-making opportunity.

- Good planners make a profit and build a good solid working capital reserve. In Kentucky a few years ago I stressed this concept at a producer meeting. The lenders followed up with coaching and encouragement. These producers can now handle a downturn but are also in the position to capitalize on an opportunity should it arise.

- Good planners in good times continue to have financial discipline. That is, knowing cost, getting the balance sheet in order by paying down debt and making the necessary upgrades to equipment lines, facilities, management and employee education and training.

By planning proactively during the good times, producers are much more prepared for the uncertainties of the industry.

Editor's note: Dave Kohl, *The Corn And Soybean Digest* Trends Editor, is an ag economist specializing in business management and ag finance. He recently retired from Virginia Tech, but continues to conduct applied research and travel extensively in the U.S. and Canada, teaching ag and banking seminars and speaking to producer and agribusiness groups. He can be reached at sullylab@vt.edu.

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