

South Dakota State University
**Open PRAIRIE: Open Public Research Access Institutional
Repository and Information Exchange**

Economics Commentator


Economics

4-15-1986

Planning for Tomorrow - Today Program Description

Burton Pflueger
South Dakota State University

Follow this and additional works at: http://openprairie.sdstate.edu/econ_comm

 Part of the [Agricultural and Resource Economics Commons](#), and the [Regional Economics Commons](#)

Recommended Citation

Pflueger, Burton, "Planning for Tomorrow - Today Program Description" (1986). *Economics Commentator*. Paper 230.
http://openprairie.sdstate.edu/econ_comm/230

This Newsletter is brought to you for free and open access by the Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Economics Commentator by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.

Economics Newsletter



Editor: Donald C. Taylor

Economics Department SDSU, Box 504A Brookings, SD 57007

Tele: (605) 688-4141

No. 234

April 15, 1986

PLANNING FOR TOMORROW - TODAY Program Description



Burton Pflueger
Agricultural Financial
Management Specialist

Planning For Tomorrow - Today (PTT) is one of the many programs available from the Cooperative Extension Service developed specifically to help producers in South Dakota deal with the farm crisis. PTT was developed for those individuals who may or may not be experiencing financial difficulties. PTT targets those who believe that reorganization and/or restructuring of their operation or finances may result in an improved financial position for their operation. PTT workshops allow participants to develop or formalize short and long term goals for both themselves and their business. Based on these goals, a management plan is developed that meets objectives established by the participants. PTT workshops allow participants to review their current operating plans and explore some alternative plans to see if they would have greater financial viability.

FINPACK - A Planning and Analysis Tool

A major component of the PTT workshops is a computerized analysis of the farm business, both current and planned. For this analysis, FINPACK is used. FINPACK (Financial Package) is the computerized farm planning and analysis package developed at the University of Minnesota and made available to South Dakota State University on a cooperative agreement. FINPACK -- comprised of four separate programs -- is designed to assist in individualized farm planning and

financial analysis. FINPACK allows both producers and their lenders to make in-depth studies of the profitability, liquidity, and solvency potential of each farm/ranch business. FINPACK is designed to make this analysis easy, but yet complete and meaningful for both the producer and lender.

FINPACK is designed to answer three basic questions that all producers should be asking themselves:

"Where am I?" "Where do I want to be?"

and if the answers to these questions differ,

"How do I get to where I want to be?"

The lender is also interested in the answers to these questions; from his viewpoint the questions are:

"Is the business sound?"; "Is it going in the right direction?"; and "Does the business have repayment capacity?"

The intent of the FINPACK program is to examine the business objectives of profitability (return to labor, management, and owner's equity), liquidity (ability to meet the firm's financial obligations as they come due), and solvency (ability of the firm to pay all debts if liquidated at a given point in time). All of the business objectives are examined so that not one objective, such as liquidity or cash flow, is over emphasized. FINPACK seeks to keep a balance among the business objectives.

Each of the component FINPACK programs -- FINLRB, FINFLO, FINTRAN, and FINAN -- is designed to stand alone. When a program is used in combination with one or more of its sister programs, however, the usefulness of the results is enhanced.

Long Range Planning

FINLRB - Financial Long Range Budgeting is a computerized procedure for simultaneously comparing the long range profitability and debt repayment capacity of up to three, at one time, alternative farm plans. It allows an individual to compare the financial strength of the current farming operation with two alternative plans involving new enterprises, new resources, different sizes or combinations of current enterprises, changes in efficiency, or changes in debt structure.

The FINLRB results should indicate whether each alternative will ever be profitable, if it will service the farm debt load in a typical year, and if future growth in net worth can be expected if the plan is implemented. The results provide some insights into the riskiness of each alternative. After a viable, financially feasible plan is chosen, the implementation of the plan still needs to be executed. For this the FINTRAN plan would be used.

Cash Flow Planning

FINTRAN - Financial Transition - is a computerized procedure for projecting farm cash flows for three years of business. It is most useful in projecting cash flows for the transitional period when a major change is being implemented. FINTRAN allows the farm manager to walk through a production and financial plan for this transitional period with the overall objective of determining whether cash will be available as needed. It is often used after a FINLRB plan has been developed, to cross the bridge between where one is now and where he wants to be.

Based on the farm/ranch family's production, marketing, and financial plans, FINTRAN projects quarterly cash inflows and outflows for the first year, and annual cash flows for the second and third years. FINTRAN is extremely useful to both the operator and his lender in estimating annual operating credit needs when a major change is implemented.

Quite often it is desirable to take a more detailed look at a projected cash flow business for the next year's operation than what is provided in the FINTRAN program. For this detailed analysis, the FINFLO (Financial Cash Flow) program is used. FINFLO is a computerized procedure for projecting monthly farm cash flows. It allows the farm family and their lenders to take an in-depth look at the farm business over the next twelve months, with the overall objectives of determining whether cash will be available as needed, when annual operating loans will be needed, and when repayment will be possible.

Based on the farm family's production, marketing, and financial plans, FINFLO projects cash inflows and outflows for each month of the coming year. A table is provided to help interpret the cash flow results in light of projected inventory changes from the beginning to the end of the year. In addition, FINFLO will provide a worksheet to monitor planned versus actual cash flows.

The cash flow programs project the timing of cash shortfalls and the amount of borrowing needed to cover the deficit. Thus, the results project the amount of annual operating loan funds outstanding during each period of the planning horizon and the projected timing and amount of the peak balances outstanding. The output also includes a summary of projected crop and livestock production, sales, purchases, feed needs and inventories. The cash flow programs can suggest changes that might be made to assure that financial obligations be met in a timely manner. The computer provides the advantage that these changes can be easily made and evaluated as to their effect on the overall farm business. FINPACK provides the added advantage of providing a comparison of planned versus actual cash flows at the end of the year if a FINAN program is used.

Year-End Analysis

The FINAN (Financial Analysis) program of FINPACK can be used to analyze the financial performance of a

farm business during the past year. Based on the farm's financial position at the beginning and end of the year, and income and expenses during the year, FINAN examines the farm's profitability, liquidity and solvency. Analysis of the past year can provide insight into management problems that may need correction for future years. A special aspect of the year-end analysis capabilities of the FINPACK program is that of enterprise analysis. The enterprise analysis will provide a summary of income and expenses for each particular enterprise as well as providing breakeven measures and indications of the efficiency of production. Also FINAN allows producers to relate the farm's current performance to its historic track record. Financial statements are listed for comparisons and a trend analysis is developed from information for each year an analysis is run.

Farm Family Management Team

Another key component of PTT workshops emphasizes the Farm Family and the Farm Family Management Team. These aspects of the workshop are designed to help participants examine the same questions about themselves that they asked about their farm business:

"Where am I?"; Where do I want to be?";
"How do I get there?"

For the home and/or farm/ranch business the answers to these questions can be obtained directly from an assessment of the goals. Many people have not identified their goals. Many hope for a better future, but few set goals describing the future they want and then manage their business in a way to attain the goals they have set. PTT workshops will help participants become better goal managers by providing a method of identifying goals and developing a goal-directed management plan.

To arrive at a goal-directed management plan, PTT participants are first asked to complete a self-assessment exercise. Recognizing that farming/ranching and family life interact constantly, the self assessment exercises of the PTT workshops focus on

motivations, interests, abilities, skills, and satisfactions of each person involved in the farming/ranching and family life activities. Once the self assessment section is completed, participants are asked to identify their goals, both long and short term. As management is an activity directed towards goal attainment, goals provide the direction to all management efforts.

In establishing goals, rarely are short-term and long-term goals mutually supporting. Also goals for the farm/ranch may be in direct conflict with those for the family or home. When this happens, participants are assisted in prioritizing their goals. Help is provided in determining which of the goals they would like to achieve first and what that would mean to achieving remaining goals.

Other aspects emphasized in the PTT workshops concern the Family Management side of the operation. Family resource should not be ignored and participants are helped to develop family spending plans or adjust the family spending plans that are set. Far too often it is found that people do not realize just exactly what their family living costs actually are. This can be a problem as it is some of the information that lenders will be interested in when they make their assessments of credit extensions for the coming year. Participants also practice personal communication skills so they will be able to talk more openly at home when problems arise. Inability to communicate may be the greatest factor in a farm business or family breakup, and it also intensifies the pain of the experience.

PTT Workshops and YOU

PTT was piloted in several Eastern South Dakota counties during the winter of 1985-86 with very good results. Counties participating in the piloting program were Beadle, Brookings, Clark, Codington, Day, Deuel, Grant, Hamlin, Lake, Marshall, McCook, Miner, Minnehaha, Potter, and Roberts. Participants were pleased with the workshops and some lenders have extended credit based on the strength of plans

developed at the workshops. Everyone using FINPACK has been pleased with the simplicity of the data and input requirements of the program as well as the detail of the analysis provided.

Recently it was announced that a Federal grant was received to further PTT workshops in South Dakota. That grant will enable SDSU to complete the training of county staff during the Fall of 1986. PTT workshops and the FINPACK program will be available from your county Extension office. It may be available in your county already. It will certainly be there before the end of 1986. Current plans are for additional training sessions involving all South Dakota County Extension staff starting in September to be completed before December.

Planning for Tomorrow - Today workshops will then be offered as many times in a county as there is adequate demand. Extension Specialists from S.D.S.U. in the areas of Family Life, Family Resources, Agricultural Finance, and Farm Management will be available at some meetings should you wish to discuss your plans or problems with them; county staff will be available at all meetings of the workshop. For more information, please contact your county agents to indicate your interest and find out when the next workshop will be held. Additional information on the PTT program can be found in "Planning for Tomorrow - Today: Report on the Piloting Program", Bulletin, SDSU. A copy should be available within 4-6 weeks from the release of the newsletter and can be requested from the author.

issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the USDA. Richard A. Bataglia, Director of CES, SDSU, Brookings. Educational programs and materials offered without regard to age, race, color, religion, sex, handicap, or national origin. An Equal Opportunity Employer.

Cooperative Extension Service
 U.S. Department of Agriculture
 South Dakota State University
 Brookings, SD 57007

**BULK RATE
 POSTAGE & FEES PAID
 USDA
 PERMIT NO. G 268**

OFFICIAL BUSINESS
 Penalty for Private Use \$300

Economics Newsletter

Address Correction Requested