# HOW TO EASE THE SQUEEZE - SUGGESTIONS FOR SOD GROWERS FOR MEETING THE COST PRICE SQUEEZE IN AGRICULTURE[1]

M. P. Kelsey and D. J. Ricks
Agricultural Economics Department
Michigan State University

## What Can Be Done to Ease the Squeeze

The most obvious solution would be to increase net farm earnings. One method is to take in more gross income, the other is to reduce costs and become more efficient in the use of resources. Alert managers will attack the problem from both ends. Now is the time to concentrate on improving the efficiency of everything you are doing.

Following are several suggestions to assist sod growers in meeting the cash squeeze. Not all can be applied to every farm, but each grower may find a few useful suggestions.

### I. Plan a Monthly Cash Flow Statement

The first step in analyzing an individual's financial situation is to develop a cash flow projection covering the next 12 months. The cash flow statement will point out possible cash flow problems and when they are likely to occur.

Farm lenders need a detailed plan of how much money is needed, when it is needed and how the grower expects to pay it back. A simple financial statement showing net worth is no longer enough to submit to farm lenders. Producers will learn that it is much easier to obtain farm loans if they present an adequate game plan.

In the cash flow plan, sort out those fixed cash expenses such as taxes, insurance and interest that must be met regardless of production. Then look closely at other operating expenses such as seed, fuel, fertilizer, chemicals and hired labor for places where costs might be cut, or where expenses are not yielding adequate returns. Do not overreact, however, and cut out operations or expenses that are essential for good production of a quality product. Producers should know their costs and returns from each enterprise or investment to be able to do a better job of utilizing scarce dollars.

### II. Reduce Expenses

1. Sharpen buying techniques
   - (a) Buy supplies off season at a discount where discounts more than cover interest costs.
   - (b) Renegotiate land rents to lower rates where possible.
   - (c) Join group purchasing of farm supplies to take advantage of quantity discounts.
   - (d) Shop and compare prices for farm supplies.
2. Boost labor output
   - (a) In-service training can improve labor efficiency, especially with new employees.
   - (b) Organize work to avoid wasted time and effort. Delegate responsibilities. Jot down on a scratch pad or bulletin board jobs that need

[1] Agricultural Economics, Revised Staff Paper, No. 1982-25

to be done and scratch off when finished. Maintain a list of lower priority jobs to fully utilize labor on "slow days."
   (c) Employ only labor that can be utilized efficiently.
   (d) Since the wage price pressure has decreased, labor is more available than in prior years, and interest rates on capital purchases are high, reevaluate the substitution of capitol purchases to replace labor. Since labor is an annual expenditure and capital purchases cover many years, you will have greater flexibility to adjust to new conditions where labor is not replaced by machines.

3. Save energy
   (a) Consider using higher concentrate sprays.
   (b) Apply fertilizer only as needed. Liming increases efficiency of fertilizers.
   (c) Insulation in the home and in heated farm buildings is one of the most effective energy savers.
   (d) Solar heat for water heating may have possiblities. Be sure, how ever, that benefits of the investment in equipment are greater than the costs.
   (e) Burning wood can reduce the home and shop fuel bill. Possibly there are dead or dying trees, woods that need thinning, or fence rows to clear. Labor can be utilized in the winter slack season.
4. Limit family living costs
   (a) Recognize that in times of financial stress you may need to temporarily reduce your standard of living--particularly by postponing personal capital purchases.
   (b) Plan a family living budget and stick to it.
5. Improve efficiency of operations

   Advance planning for timeliness of operations pays big dividends. Know in advance what needs to be done, and plan for the labor, equipment and materials to be available at the most appropriate time to get the job done.

III. <u>Delay New Investments</u>

1. There is little likelihood of being able to pay present farmland prices solely from the earnings of that land.
2. Budget very carefully, using conservative prices, before investing in machinery, irrigation or storage, especially if you must borrow funds. Be sure the investment will not only be profitable, but that it generates enough cash to cover debt payments.
3. Consider repair or overhaul of present machinery and equipment, and postpone new purchases until better times.
4. Emphasize preventative maintenance to reduce repair expense and avoid breakdowns.
5. Explore custom hiring of some operations for feasibility rather than purchasing own machinery.
6. If the cash squeeze continues, there may be excellent values in quality used equipment.
7. Explore leasing instead of buying large equipment. The lessee can get the investment credit and can deduct the lease payment as an expense, or under the 1981 Economic Recovery Act the depreciation and investment credit can be maintained by the lessor. This should reduce the annual lease payments to the lessee.

8. Evaluate carefully the changing economic framework for sod producers. The interest rate-land appreciation balance has shifted. Therefore, there is less incentive to buy more land in the immediate future. A moderate size farm, well cared for with high production may be more likely to make a large net worth gain, than a big acreage with only average production.

IV. Increasing Income

1. Short-run Marketing Strategy
   (a) Line up your market for 1983 production well ahead if possible.
   (b) Assess your buyers carefuly for financial stability, promptness of payment, etc. Potential loads uncut and delivered may be better than loads delivered and not paid for.
2. Improve Efficiency of Operations

   Keep closer contact with your sod acreage for monitoring growth and possibly reduce costs and maintain quality. Consider use of a spray consultant pest management scout and/or a stronger individual commitment.
3. Additional off-farm income from labor or custom work may be possible.
4. Sale of capital assets such as excess machinery and/or non-productive land would bring in cash and reduce non-productive expenses.
5. Longer-run marketing strategies.
   (a) Line up long-term market outlet through strong commitments and/or solid working relationships with buyers' firms.
   (b) If a grower is exploring the possiblities of joining a cooperative, the following aspects of the co-op warrant consideration:
      (1) The types of products sold
      (2) Brands owned or special markets
      (3) Marketing methods, philosophy and strategies
      (4) Long-term financial prospects
      (5) The"track record" of the co-op returns to growers over a period of years
      (6) Type, age and efficiency of the plant facilities
      (7) Investment requirements for new grower members
      (8) Management capabilities and "track-record"
      (9) Grower leadership by current or potential members
      (10) Variety of crops handled
      (11) Policy on how much volume a grower can (or must) deliver each year
      (12) Special services offered grower members
      (13) For a new cooperative
         (a) The purchase price
         (b) Financing arrangements for purchasing the co-op plan and other assets.

V. Restructure Present Debt

1. Extending the term of loans reduces annual principal payments and thereby eases a cash flow bind.
2. Shift debt to long-term mortgage financing. Because of past increases in real estate values it may be possible to absorb more short and intermediate term debts into a long-term mortgage and reduce annual principal commitments. However, using real estate to refinance unpaid operating loans can slow debt repayment, and if the trend continues, can lead to real financial trouble.

3. Try for a balance of long-term, intermediate, and short-term credit.
4. Avoid high interest loans such as the monthly rates frequently charged by finance companies, equipment dealers and farm supply firms. However, evaluate dealer loans carefully. They may be less than your regular credit sources.
5. Concentrate credit into a few sources for better control of your debt structure.
6. Keep lenders informed on financial plans and credit needs.