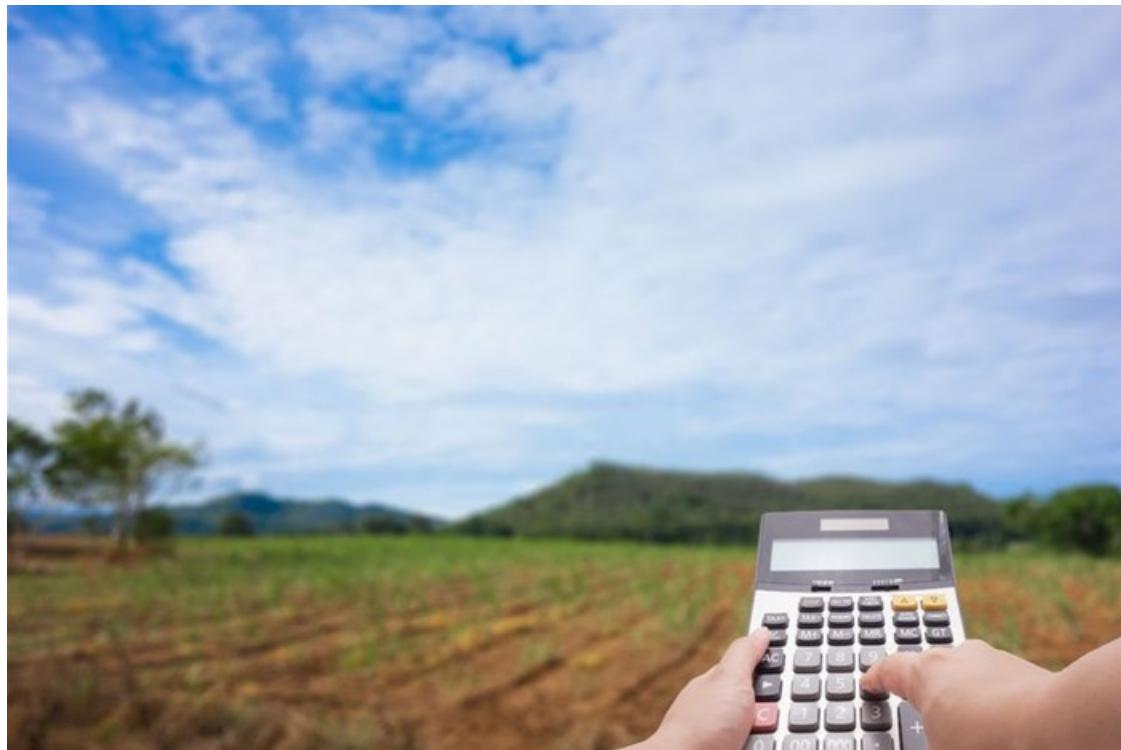


The crucial role of financial management in farming success

Farming demands patience, perseverance, and strategic planning in all facets of the operation. While farmers recognise this in cultivating crops and raising livestock, financial management often doesn't receive the same attention. A lack of long-term financial planning can be just as detrimental to a farmer's livelihood as natural disasters like floods or droughts.



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"Farmers must understand the long-term cycles of their commodities and be adaptive to short-term changes and challenges in their environment," says Dawie Maree, head of agriculture Information and marketing at FNB Commercial. "They need the flexibility to adjust tactically in the short term while keeping their long-term vision in focus."

He emphasises that this mindset is just as critical when it comes to financial planning and working with banks to develop and monitor finances as circumstances evolve. "Farmers need to stay cognisant of uncertainties and have the financial buffers in place," he explains, "and the only way to achieve this is through a highly strategic approach to financial planning."

He points out that this level of strategic financial flexibility requires a comprehensive approach encompassing numerous components, some of the most important of which are the following:

- **Rigorous budgeting** - Developing detailed, data-driven budgets using the SMART approach is crucial for effective farm management and securing financing. "Budgets need to be very detailed," Maree says, "and account for production costs, capital expenditures, and cash flow projections."
- **Long-term strategic planning** – Maree says that having a written long-term financial strategy that aligns with breeding or production plans is essential. He also stresses that this strategy must be regularly reviewed and revised to adapt to changing market conditions.
- **Meticulous record keeping** – While few farmers would readily admit to being excellent at paperwork, running the farm as a business requires robust systems to track all financial records, no matter how small. This enables farmers to reconcile accounts and make informed decisions.
- **Cyclical mindset** – This may seem obvious, but Maree explains that, in challenging times, it's easy for farmers to lose sight of the cyclical nature of their operations. "Recognising the cyclical nature of farming avoids the temptation to chase short-sighted quick fixes," he explains, "when patience and a long-term mindset are vital given the inherent timelines of production and breeding cycles."
- **Estate planning** - Maree says this is a critical aspect of long-term farming success that many farmers mistakenly overlook.

"Each farmer's assets and circumstances are unique, so a one-size-fits-all approach doesn't work," he explains, "and a good estate plan is much more than just drafting a will. It requires a detailed look at everything you own and careful consideration of what you want to happen with it when you pass away."

He says that one of the most common pitfalls is bequeathing the entire estate to a spouse without considering his or her ability or desire to keep on managing the farm.

- **Succession planning** - "Spend time on succession planning to ensure you are planting for your children's future," says Maree. "In the past, few farmers thought about retirement and found themselves overly dependent on the land and next generation, which only adds to the burden they will face when they take over the operations."
- **Optimised legal and operational structures** – Maree explains that evaluating and establishing appropriate structures like trusts or companies can be an excellent way of optimising tax efficiency, mitigating financial risks, and enabling seamless continuity during generational ownership changes.
- **Professional guidance** – "Partnering with a specialised agricultural finance expert provides valuable guidance," Maree says, "which enables farmers to make well-informed decisions that help ensure their financial sustainability, while still being able to focus on their core operations."

He points out that building a strong relationship with your bank at the outset, rather than just when a crisis hits, is key because it enables your bank to fully understand your operations and be more willing to provide the financial support you need during difficult times.

Maree says that by integrating these components into a strategic financial plan, farmers can effectively navigate uncertainties and facilitate their operation's long-term sustainability. "Financial planning needs to align with the strategic long-term vision for the farm," he concludes, "farming success is not just about this season's crops and livestock; it's about planting seeds that will benefit future generations."

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