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Five strategies for managing 2015 crop financial risks

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While production risks are at the forefront of most producers' minds, don't ignore the need to manage your farm's overall financial risks. While the initial concern may be trying to market crops at cash prices not seen since 2009, part of the solution is looking beyond the next six months.

Despite the tight profit margins expected for 2015, consider these five financial risk management strategies.

Protect your working capital

Maintain adequate cash reserves, which are typically working capital (current assets minus current liabilities) as well as operating lines of credit. By the late summer months, these reserves and access to credit will be critical to finish off 2015 crop operating expenses and make early input decisions for the 2016 crop. Many operations reduced their available working capital the past year and may not have maintained adequate cash reserves for what are needed in the face of falling crop prices. The goal of most Corn Belt row crop operations would be to maintain a 40 percent ratio of working capital to gross revenue (current assets minus current liabilities) divided by gross crop revenue. This ratio was nearly double that 40 percent level for many farms in 2012 and 2013.

Secure repayment capacity

With interest rates at near record lows, lock in rates now on longer-term debt and renegotiate repayment terms to free up additional cash to make crop operating decisions. This past winter most agricultural lenders did a nice job of reaching out to help qualified customers free up working capital by reamortizing existing loans and reducing principal repayments. The operating lines of credit established for 2015 did not likely include storing a large portion of both 21014 and 2015 crops into the fall and winter months.

Control your costs

The knee jerk reaction by many producers in light of the tight crop profit margins for 2015 was just to cut costs. A better strategy is to control those controllable expenses while maintaining great yield prospects. Prioritize your cost cutting measures early before the 2015 growing season progresses. Identify those input decisions that will be critical to maximize your economic return on crop inputs.

Maximize your 2015 yield

It's still the total bushels produced and marketed that will generate the total gross crop revenue you'll need to pay both crop-related and family living expenses. Think ahead now to the 2015 crop harvest and how best you might manage on-farm drying and storage capacity. Consider on-farm versus commercial costs for those corn bushels that you can't manage on-farm. Perhaps making new crop corn and soybean sales directly from the field to avoid shrink and storage costs as well as harvest basis risks.

Manage price risks

Many farms still have their working capital tied up in unpriced 2014 bushels. Consider making old and new crop sales in the spring and early summer months. That's typically when the futures markets build in a risk premium for corn and soybeans and a majority of the global feed grain crops are grown in the northern hemisphere. Should the 2015 crop yield prospects remain large into the late summer months, the risk of both lower futures prices and wider basis will likely increase. Storing two years of crops into 2016 could prove expensive and add to a farm's financial risks.

With razor thin profit margins for 2015 crops, plan ahead now by utilizing these five crop risk management strategies. There's an old adage that says, "Failing to plan is planning to fail."