

MANAGING THE COST OF YOUR MONEY

BY DOUG NORTON, FARM CREDIT SERVICES SW

Ranchers – you know better than most that there are some things that are beyond your control when it comes to the profitability of your operations. Perhaps the price received for your calves or the price of supplement feed or the weather come quickly to your minds. One other item you may think is beyond your control is the cost you pay for your money for operating and permanent capital needs. In other words, you may think you have little or no control over your interest cost.

Influences that determine what you eventually pay in interest cost seem to begin and end in Washington DC. Add to that the influence from global events and the state of foreign economies and you have an equation for uncertainty and lack of personal control. In August the Federal Reserve's Open Market Committee decided to keep the Federal Funds rate at its historic low of zero to 1/4% and have since reaffirmed that due to the sluggish economic conditions, keeping it at that low level is warranted at least through mid-2013. This should keep variable interest rates at low levels for the time being. All of this is evidence that the actions of others independent of your operation can have a significant impact on one aspect of your cost structure.

With all of that being said, let's discuss some things you can do that may help in managing your interest cost.

To Fix or Not to Fix?

Variable interest rates will be the least expensive and are appropriate for your short-term borrowing needs. However, if you have intermediate-term debt on cows or equipment or long-term debt on your ranch real estate it may be beneficial to talk with your lender about the options of fixing the interest rate. Here are some specific questions to ask yourself and your Loan Officer when considering fixing your interest rate:

- How sensitive is your operation to rising interest rates? This is important to understand in the event rates begin to rise.
- Do you plan to sell assets or anticipate having money to pay down the loan within the next few years? If so, it may not be worth the extra interest cost required to fix it.
- Will there be a prepayment penalty clause which would prohibit you from paying ahead of schedule without paying a fee? Ask your Loan Officer specifically about this.
- Is it possible to fix only a portion of your loan and leave the remainder on a less expensive variable rate or on

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a shorter fixed period? Diversification, even with your interest rates, can pay dividends.

Keep in mind that the longer you fix the rate the more expensive it will be. Fixing your interest rate can take the risk out of rising interest rates but there will be some cost involved in doing so.

One other option you might consider. With interest rates continuing to be low, it may be worth looking into refinancing some of your long-term debt. If you have had debt on the books for more than 5 years, interest rates may have come down below what you are paying currently. In considering this, make sure you understand all the costs involved in refinancing, including appraisal costs, title fees, prepayment fees, etc. You may be able to reduce your rate enough to pay off the cost of refinancing in a short period of time and begin to enjoy the reduced interest rate. Again, talk with your Loan Officer about this possibility.

Is Cash Really King?

Bankers will always tell you that they like to see cash sitting in your bank account. While that is true, if there is excess cash beyond your normal daily or weekly needs, it may pay to establish a sweep policy for your short-term loans. Some Banks provide cash management services where excess cash in your deposit account is automatically swept from that account and applied to your short-term operating loan. Be cautious, however. These types of automated services can be costly and may not pay in the long run. Your Bank should be able to help you determine the potential cost savings prior to purchasing the service.

Most Banks do, however, offer some type of on-line banking service where you can access your loan account on-line and connect it to your deposit account which enables you to transfer money between the accounts. You can then easily establish a habit of transferring excess cash from your deposit account to your revolving loan account and draw it back out only as you need it. In almost every case this will save you money. Talk to your loan officer about this type of service and make sure you understand the cost, if any, of utilizing it.

Keepin' things current!

One additional way you can manage your interest cost is to establish a solid credit history. Being diligent about keeping all of your debt obligations paid in a timely manner and maintaining good equity in your operation may qualify you for better interest rates on your loans. Keep in mind that banks will charge an interest rate they feel is commensurate with the risk they see in your operation. Keeping your loan accounts current and working to establish solid equity can lead to lower interest rates.

The truth is there are many things out of your control when it comes to operating profitably. However, when it comes to interest cost there are some practical things you can do to manage it and hopefully minimize it. I encourage you to talk with your lender and determine what you can do to take control of this part of your operation.

If you have any questions about this article, feel free to call me at 520-975-8804.

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modern livestock merchandising



Use of Social Media for Ranchers

by Rachel Cutrer

Social media is one of the newer trends being utilized by modern livestock producers. However, if you spend more time working on the ranch than you do in front of a computer screen, the phrase “social media” may seem like a foreign language.

Wikipedia defines social media as “media used for social interaction, using web-based technologies to turn communication into interactive dialogues.” Wikipedia continues by stating that “current marketing trends show the use of social media to be a driving force in blending technology with social interaction to create value for a product.” (www.wikipedia.com)

There are many social media outlets; however the most common ones for agriculturalists include Facebook, Twitter, YouTube, and personal blogging. Message boards, forums, and podcasts are also examples of social media. These sources are very different from traditional outlets of information and news, such as magazines, newspapers, or television.

Benefits of Social Media The two biggest advantages to using social media is cost; it is completely free (or very inexpensive) and is very user-friendly. This makes it easy for anyone with basic computer and internet skills to join conversations and activities on any of the aforementioned web sites. Users can update their Facebook or Twitter pages in a matter of seconds, using a computer or even their cell phone.

Livestock’s social media users often find that they are able to connect with fellow agriculturalists from around the world with a few clicks of the mouse, creating a virtual network of friends and colleagues. Due to its popularity and scope a Facebook page allows individuals and businesses to promote their operation on a very large scale, ultimately the entire world, with no associated cost.

Social media sites like Facebook and Twitter are also extremely user-friendly. Users with the most basic computer skills can confidently join the sites, update pictures, and share news using these straight-forward interfaces. For example, a user wishing to post new photos on Facebook simply has to click on the photos they wish to post. Facebook automatically uploads, re-sizes, and publishes the pictures in a matter of minutes. Another benefit of using these sites is that anything can be edited, changed, or even completely removed very conveniently. A typo found after your sale catalog is printed cannot be changed, however a typo on Facebook can be permanently corrected in a few seconds.

Sharing news and updates is virtually instantaneous when using a social media site. Timeliness is one of the major benefits of utilizing this form of media. For example, a producer who wishes to get word out about an upcoming sale may choose to post an update to Facebook with something like “New bull sale catalog just posted at www.myranch.com.” This update will be broadcasted to all of the

rancher’s friends on Facebook. No phone calls necessary, no mail outs necessary, just a few simple keystrokes to get the message out.

Concerns for Using Social Media Once you join communities like Facebook or twitter, chances are you’ll be hooked. Wikipedia cites that social networking currently accounts for 22% of all time spent online in the United States. It’s very easy to get caught up on chatting, checking your friends’ news, and realize you’ve spent nearly an hour on Facebook. Try to set boundaries and limitations for the amount of time spent on social media, especially for children.

Take notice of privacy settings and options on various social network sites. By adjusting Facebook privacy settings, a user can control how much of their information is visible to other site users. For example, one may choose to make their profile only visible to friends, while others may want their profile to be completely visible to anyone in the entire world. Avoid posting status updates indicating that you are traveling, home alone, or anything that may pose trouble.

Choose your words carefully when interacting with others on social media. Avoid posting controversial or offensive topics that might alienate your potential clients. Avoid being a cyber bully or assuming that you are an authority on a given topic. Instead, remember that you are one of millions of participants in the social media conversation, and make an effort to offer relevant and timely contributions. Always be courteous to other users.

Along the same lines, try to post things that are interesting, newsworthy, funny, or unique. Don’t clutter the online community with irrelevant status updates like “I just ate lunch” or “I’m bored.” Even worse, don’t overuse social media to try to shove your marketing message down users’ throats. Just as people hate spam emails or telemarketers, no one appreciates a person who continually is posts updates that try to sell or over-market a product to their friends. Instead, try to build a reputation as someone who posts useful information that others enjoy – and even look forward to reading.

As mentioned, there are hundreds of social media outlets that ranchers can utilize and participate in to reach new friends and potential clients, making it possible to become quickly overwhelmed. Choose a few options, in which you are most comfortable, perhaps Facebook and YouTube, or Twitter and a blog, and devote your time to being an active and worthwhile social media participant. ©2011



Rachel Cutrer, M.S., is president of Ranch House Designs, Inc., a leading national graphic design and communications firm.