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This is one of a series of articles written by Dr. David Kohl for the Minnesota State Farm Business Management Education Program.

Vol. #108



The Five Percenter

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The opportunity for business, financial, and personal prosperity does not depend on size or specific enterprise. History would suggest it is not about the next big thing, which is evidenced by some of the past initiatives that were going to bring prosperity to the agriculture industry and ultimately were underwhelming in the long run. A term coined by the late Dr. Danny Klinefelter, founder of The Executive Program for Agricultural Producers (TEPAP) at Texas A&M, is that successful agricultural business managers are *five percenters*. This means they are five percent better in many components of production, operational efficiency, marketing, risk management, and human resources within the framework of the mission, vision, core values, and goals of the business.

Recently, a producer indicated that his marketing plan was boring because he seeks “base hits” rather than the proverbial “home run.” He stated that he develops his cost of production, breakeven points, and best, average, and worst-case scenarios and uses these parameters to execute for profit using a methodical process. Yes, you will leave some money on the table with this strategy. However, this producer indicated that he has generated a positive earned net worth change in 17 out of 20 years in business. His five percent better performance has allowed him to purchase a farm or ranch in 15 out of 20 years based on profits and cash flow.

Another producer who follows the five percent rule focuses on the “big three,” which are gross margin, asset turnover ratio, and optimal overhead costs. If they want to improve return on assets, the partners will attempt to eliminate unproductive assets to reduce overhead. This strategy improves the asset turnover ratio because total assets are reduced. Next, they examine every profit center utilizing enterprise budgets to find ways that they can increase revenue or reduce costs, which improves their gross margin.

Seasonal purchases of fertilizer and other crop inputs at a discount, when available, is a strategy that the five percenters employ to compound their margin. Some producers use regenerative land practices to improve stocking rates on pasture and align with the marketplace that desires grass-fed beef. This practice allowed them to reduce their overhead costs by eliminating hay equipment, which accelerated the asset turnover ratio.



A working capital strategy is often an integral part of the five percenters' plans. They are deliberate about building working capital in profitable years and maintaining certain amounts of cash. This allows for flexibility in marketing and risk management programs. One producer discussed that this strategy allows them to be ready to pounce on an input or capital purchase opportunity. A young farmer and rancher learned an important lesson from his dad, a veteran of the 1980s farm crisis, that equity does not guarantee loan approval in tough times. Advice from his parents and grandparents was to maintain working capital to bridge the negative cash flow that economic cycles often present.

The five percenters are coachable. They will often have an advisory team that meets on a regular basis. This could be a farm management instructor, crop or livestock consultant, lender, accountant, mentor, or someone outside of the agriculture industry. The meetings are for information and practice exchanges, but also a critical examination of strategies, objectives, actions, and outcomes of the business.

"Champions enjoy being measured" was a great quote from a recent producer-lender meeting. Five percenters take ownership of their numbers and conduct a trend analysis of the business. Next, they will seek peer comparisons of key operational, business, and financial performance data.

A five percenter of the future will invest time in human resources and communication. An interdependent strategy involving workers, management, suppliers, consumers, and the community often finds increased productivity and stronger bottom-line results. Conducting a personality assessment of yourself, coworkers, and even the people you deal with is becoming *en vogue* with the five percenters of the agriculture industry. Finally, the five percenters will indicate that success is often driven by the business culture and the people component. If one has a positive return on relationships (ROR), then the return on assets (ROA) and return on investments (ROI) will take care of itself.

In summary, being a five percenter and the elements that it comprises are often different for every operation. As we approach the quarter-century mark of the 21st century, what are three ways you can be five percent better? Are you up to the task?

