David M. Kohl
Professor, Virginia Tech
Agricultural Finance and Small Business Management

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Blocking and Tackling: The Four Pillars of Farm Business Success

By: Dr. David M. Kohl

The other evening, while scrolling through YouTube videos on smash-mouth football from yesteryear, a feature on the life of Vince Lombardi, the famous football coach, emerged. Before his coaching days, he was part of Fordham University's dominant offensive line nicknamed the "Seven Blocks of Granite." Football games were won through the basics of blocking and tackling, in contrast to today's arena-style, passing-focused game. Drawing from the video and comparing it to agriculture and business management in these chaotic times, the lesson is clear: good old-fashioned blocking and tackling, anchored by the four pillars of business and finance, can be a recipe for success regardless of the economic cycle.

A preconference session at the 73rd ABA Agricultural Bankers Conference, featuring the FINBIN team from the University of Minnesota and Farmer Mac, provided evidence of how the four pillars drive successful businesses over time. What follows are practical insights drawn from their research and real-world observations from farm operations across the country.

Pillar One: Production Excellence with Efficiency

The first pillar of success is generating incrementally higher production each year compared to historical trends or to peers. Over the past five years in the database, the most successful producers generated about 5 percent more in crop yields, livestock output, and milk production gains when compared to their peers, while still maintaining economic efficiency. This might sound modest, but compounded over time, that 5 percent advantage creates substantial separation between the top performers and the rest.

Knowing When to Scale Back

In favorable economic times, marginal cropland, affected by distance, inefficient logistics, uneconomical rents, or excessive overhead, is sometimes put into production. Likewise, livestock enterprises that are not aligned with business talents or market opportunities may continue to operate despite being inefficient, often resulting in less-than-stellar profits. When prices are high, these inefficiencies can hide in plain sight. When margins tighten, they become glaringly obvious.

Recent engagement with producers indicates that many are scrutinizing the productivity of their assets. Some are even scaling down or selling assets to become 5 percent better. This counterintuitive approach of getting smaller to get stronger reflects a deeper understanding of what drives profitability. It is not always about farming more acres or running more head. Sometimes it is about farming the right acres or managing the right enterprises with precision.

The Power of Subtraction

In strategic planning, one exercise that is often overlooked is identifying the three variables or activities you are going to eliminate. This practice can be valuable when conducting a resource assessment of your business to strengthen the production pillar. What land are you farming out of habit rather than profitability? Which enterprise consistently underperforms? What practices cost you money without improving your bottom line? Asking these questions forces a clear-eyed evaluation of where your time, capital, and energy are actually creating returns. The best operators are not just good at adding new opportunities. They look for opportunities to say no to the wrong ones.

Pillar Two: Cost Management

Ownership of your numbers is the foundation of the second pillar. Developing your cash flow and profit-and-loss budgets is not just for the bank; it is the "blocking and tackling" behind a solid management mindset. The key in cost management is not only to develop the cash flow plan but to monitor it throughout the year so tactical adjustments can be made to your strategic plan.

The 5 to 10 Percent Advantage

The preconference information presented showed that top-level profitable businesses were 5 to 10 percent better in input costs, such as fertilizer, seed, and sprays. Another overlooked element was that they paid less for cash rents and leases. When these factors were aggregated, whether for crops or livestock, the impact compounded, resulting in a breakeven or slight profit even in struggling industries like grain and row crops, and more substantial profits for the livestock sector, which is currently experiencing a positive part of the economic cycle.

Spreading Fixed Costs

Another variable in cost management is spreading overhead costs per acre or per livestock unit. The ability to distribute fixed or overhead costs across more units reduces the fixed cost per acre or per-unit cost metric. Scale matters, but only when the additional units you are managing maintain or improve efficiency rather than dilute it.

Building Your Operational Plan

An operational plan to support your cash flow projections is a critical component of the first two pillars. What are your production expenses and their timing throughout the year? What are your debt service obligations and family living needs? Well-developed assumptions, incorporating best, average, and worst-case scenarios, provide a platform for making objective rather than emotional decisions. This type of planning allows you to see problems coming rather than reacting to them after they arrive. When you know your numbers, you can make proactive adjustments instead of desperate ones.

Pillar Three: Marketing and Risk Management

The third pillar of the blocking and tackling game plan is marketing and risk management. This is where one must incorporate budget scenarios, cost of production, and breakeven scenarios so that an effective marketing plan can be executed and monitored. Data presented at the preconference session indicated that, whether in crops or livestock, the top-level profit farms achieved price outcomes about 5% to 10% better than their peers. This often required objectively following a plan and not getting caught up in the emotions or hype of marketplace chatter.

When Plans Meet Reality

The exception was when COVID struck and the marketplace shifted quickly. In that situation, those who followed a plan—whether in crops or livestock—left money on the table. This often becomes the bragging point for those who do not follow a plan. In reality, extraordinary market events like COVID are rare. Over the long run, following a disciplined marketing plan will outperform gut-feel decisions, even if the plan occasionally misses a big rally.

Understanding Your Risk Tolerance

Another component is risk management. Crop and livestock budgets, as well as breakeven calculations, can be critical in determining your business's tolerance for risk. Your risk-taking profile and the amount of working capital or equity you hold also play an important role in risk management decisions. A producer with strong working capital can weather price volatility differently than one operating on thin margins. Knowing where you stand financially should inform how aggressive or conservative your marketing approach needs to be.

Getting the Right Guidance

If you're not confident in your abilities in marketing or risk management, an advisor, such as a farm management consultant or lender, can provide valuable guidance. However, you will still be responsible for making the decisions and being accountable for the outcomes. The goal is not to outsource your decision-making but to ensure you have the information and perspective needed to make informed choices that align with your operation's goals and risk tolerance.

Pillar Four: Capital Efficiency

The final pillar discussed at the preconference session was capital efficiency. One glaring point was that the most profitable segments had much lower machinery and equipment costs per acre or livestock unit. As one banker at the conference stated, “It's time to conduct an assessment of equipment and machinery that is gathering rust or bird poop.” A good partial budget analysis when assessing technology and innovation can also be very valuable.

Earns and Turns

The whole premise behind capital efficiency, combined with cost management, is the business principle of “earns and turns.” That is, net margin or bottom-line profit multiplied by capital turnover, or the efficient use of assets, equals profitability. You can have strong margins, but if too much capital is tied up in underutilized equipment or land, your return on assets suffers. Conversely, high asset turnover with razor-thin margins also fails to build wealth. The best operations balance both.

The 5 Percent Challenge

Yes, these are chaotic times with varying degrees of adversity, including weather, tariffs, and an uncertain domestic and global economy. This winter, segment out the four pillars, conduct an assessment of your business, and aim to become 5 percent better in the key components of each area. This is where a good advisory team or peers can serve as valuable assistant coaches as you develop your foundation for business and financial success.

The blocking and tackling fundamentals of production excellence, cost management, marketing discipline, and capital efficiency are not glamorous. They do not make for exciting conversation at the coffee shop. But they are what separate the operations that thrive across economic cycles from those that struggle when conditions tighten. Just as Vince Lombardi's Seven Blocks of Granite won games through relentless execution of the basics, your farm business can build lasting success by mastering these four pillars.