

# David M. Kohl

Professor, Virginia Tech

Agricultural Finance and Small Business Management

*This is one of a series of articles written by Dr. David Kohl for the Minnesota State Colleges and Universities*

*Farm Business Management Education Program. Vol. 58*



## **Strategic Positioning for 2014 and Beyond**

By: Dr. David M. Kohl

In a recent leadership institute a young agriculture producer sized up his management strategy with a quick phrase: “Mental toughness and discipline with focus and follow through.” Let’s expand upon this participant’s comment and further define the rules of the road for strategic positioning and focus, not only for this year, but looking toward the year 2020.

My previous articles have centered on moderation of the grain industry economics and the rise of prosperity in livestock and other agricultural industries. Regardless of where a business is in the economic cycle, there are time-tested strategies that provide mental discipline which will become a more important variable in the future.

First, one must control emotional behaviors. Approximately 80 percent of all economic decisions are not made on logic, but emotion. A dangerous behavior that has been rewarded in the great economic commodity super cycle has been greed. Simply put, not following a disciplined risk management plan because it could result in leaving profits on the table is a classic example. Second, purchasing or renting farm ground at a premium price because “they’re not making any more,” feeding the ego of growth, is another classic example. These behaviors could result in potential disaster as one manages on the edge in the undisciplined pursuit of more.

Complacency is another behavior that bears watching. “Good time” economics frequently results in not following through on the basics, whether it is operations, finance, risk management, or overall business management. Remember success in management is not about a magic silver bullet. Execution and follow through is an incremental process. That is, doing 100 little things 1 percent better, rather than one thing 100 percent better. Analogous to a coach caught up in a losing streak, often we need to focus and get back to basics and fundamentals.

Another dangerous behavior is stubbornness or the “lockup factor.” Recently a banker from Nebraska commented that some of his customers were stubborn, seeking higher prices now and exhibiting a “deer in headlights” approach by locking up and doing nothing.

In strategic positioning for the future, scenario planning with various price, cost, and production measures can be a tool to apply the discipline needed to more effectively manage these behaviors. These cash flow outcomes provide the format to bring logic into decision making, particularly when one has to explain the processes and outcomes to a lender or farm management consultant.



A MEMBER OF THE MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

Minnesota State Colleges are an affirmative action, equal opportunity employer and educator. This document is available in alternative formats to individuals with disabilities by calling 1-800-722-1151 or through the MN Relay Service at 1-800-627-3529.

Another critical step in the strategic positioning process is to form an advisory team that meets periodically to discuss thoughts, perspectives, and outcomes as conditions change. A simple advisory team could include your lender and your farm management consultant. More complex businesses may add special experts to provide additional expertise in certain areas, such as production, legal issues, etc. Forming an advisory team can be a valuable investment of time and money, regardless of the stage of the economic cycle.

Strategic positioning and mental discipline require goal setting. While many experts suggest developing a mission statement and core values, a good set of simple family, business, and personal goals, along with mental, physical, and spiritual goals, can provide a road map outlining aspirations for business and life. Write down your top two or three goals in each area for 2014, but I also suggest you stretch these out on the horizon toward 2020. Business goals can relate to operations, finance, marketing, risk management, transition, etc. An example of a personal physical goal is that one very successful producer, following a suggestion from his lender, chose to lose over 150 pounds. He has actually kept it off for four years. He stated that his energy, mental clarity, and mood improved dramatically, resulting in an even better performing business.

Another strategic focus that will require discipline will be focusing on working capital reserves on the top half of your balance sheet. Many farms are equity-rich through asset appreciation, but in the upcoming years the challenge will be increasing profit margins and operating liquidity. First, analyze your business' working capital to revenue or expenses ratio, or even the current ratio over the past several years.

Benchmarking your business outcomes to previous years to discern trends can be helpful, but also benchmarking to peer businesses to ascertain how you stack up can be motivating. Analysis of the FINBIN farm record database finds that the top 20 percent of producers, ranked by ROA, exhibit over 50 percent working capital to revenue, while the low 20 percent of producers have about 10 percent to 20 percent working capital to revenue. Your ability to prosper in challenging economic cycles will be directly correlated to your ability to maintain or to build working capital to bridge the gaps and challenging years, but also position your business to take advantage of opportunities.

Strategic positioning also focuses on discipline when taking withdrawals from the business for personal use and nonfarm capital expenditures. The average farm living withdrawals are now six figures in many regions. However, digging deeper, the difference between the high and low one third of family living expenses is approximately \$60,000. That is a tremendous amount of cash flow that could be used to grow the business or service debt if discipline is applied. Nonfarm capital expenditures, often for nonproductive assets, are now averaging \$120,000 and are over \$300,000 for those with the top one-third of living costs. In the next few years as the economy moderates for some agriculture sectors but improves for others, mental discipline will be a key ingredient in a successfully executed game plan regarding living withdrawals.

While these suggestions are not comprehensive, they are a few of the practices that can be executed to increase mental discipline and focus that will be important for strategic positioning in 2014 and beyond.



A MEMBER OF THE MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM

Minnesota State Colleges are an affirmative action, equal opportunity employer and educator. This document is available in alternative formats to individuals with disabilities by calling 1-800-722-1151 or through the MN Relay Service at 1-800-627-3529.