David M. Kohl
Professor, Virginia Tech
Agricultural Finance and Small Business Management
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“To Do” List for 2017

By: Dr. David M. Kohl

Home for the holiday break, I was in my tractor feeding cattle when one of the neighboring producers flagged me down with a special request. As a list maker, he asked me for ten things he could do to position his business for success in 2017, despite this economic down cycle. Riding along in the cab together, we outlined and discussed elements that will make a business better in 2017 and beyond.

The first point we discussed was the importance of goals. Outline basic goals for your business, family and personal life. These goals should be in writing and span from one to five years. In my neighbor’s case, he has a son and spouse both involved in the business. Expanding this goal-setting exercise to include these individuals will assist in communication and focus for the business strategy in 2017 and into the future. In addition, articulating goals can be a good first step when meeting with your lender, landlords, suppliers, and financial advisors.

Next on the “To Do” list is a cost of production budget. My neighbor raises both crops and livestock which make budgets by enterprise most appropriate for him. This year focus on the delineation of fixed and variable costs. Many producers are not covering total cost which means they are forgoing machinery and equipment upgrades, and postponing other capital expenditures. It is important to note that while this will work in the immediate, eventually a longer-term sustainable solution must be implemented.

Another angle on cost is covering variable costs. Recently, I encountered a financially-stressed dairyman at a critical point. Milk prices were so low that he was not able to cover his variable cost of production; and unfortunately, his variable costs have not been covered for multiple years. It is a well-known standard in economics that when variable costs are not covered, drastic action must be taken. When meeting with your farm management instructors or agricultural lender assess both categories of cost, variable and fixed, if losses seem to be mounting.

Be sure to check your credit reports as well as those of the entire family. Increasingly, agricultural lenders utilize these credit reports and credit risk models for acceptance or denial of credit requests for intermediate, long-term and operating monies. A good credit score is 700 or above. Make sure to examine your credit reports for false information. A recent report found that up to 20 percent of credit reports have abnormal or false information. This is particularly true if you have had medical or legal issues in recent years.

The next item on the list is to develop a cash flow. This step is 80 percent of the entire business plan as it requires one to think through production, financial, and marketing and risk management strategies. For 2017, include a sensitivity analysis of credit on a variable interest rate. If the new administration proposes pro-growth policies, the unemployment rate rises to near 5 percent, GDP growth increases to 3 percent, or the inflation rate increases to above 2.5 percent, we will likely see a ¾ percent rise in interest rates. The cash flow can assist in determining the timing of inflow and outflow so that one can balance liquidity with marketing and risk management programs. This tool allows you to proactively take advantage of marketing windows as well as cash discounts. When combined, these advantages can add a significant amount to your bottom line.

Knowing your cost of living is equally as important as knowing your cost of production. For 2017, it will be critical to get a handle on family living withdrawals from the business. A personal and family living budget will help document actual costs. In fact, this is an area through which agricultural lenders may judge your discipline and dedication to commitments. A critical issue facing many farm families is generating enough income to support the withdrawals of multiple family members. With prices like $8 per bushel corn, $18 per bushel soybeans, $3 per pound of beef and $30 per hundredweight milk, the industry became almost magnetic attracting family members and others. Now, with prices at half those points, cash flow for businesses is in jeopardy.

Discussion in the tractor cab also focused on a drive toward efficiency. In the economic super cycle, lots of businesses expanded to capitalize on the economies of scale, but often without fine-tuning management to match. Regardless of size, a business that commits to 5 percent improvement in areas such as, production, cost efficiency, marketing and risk management, and financial management can incrementally increase their profit margin even in the downward part of the cycle.

Also on the list for 2017 are networking and education. As I've heard it said, "If you are not learning, your neighbor is." Make a plan to continue your education this year through events, classes or even travel. A critical part of this education is the opportunity to connect and network with people and peers. In fact, networking is critical to maintaining a positive attitude. Further, take the opportunity to explore your education outside the field of agriculture; it may just expand and energize your thoughts.

Financial records and documentation will be crucial in positioning for 2017 and beyond. Accurate balance sheets with 3 to 5 year trend analysis of key ratios and financial metrics such as, working capital to expenses and change in equity, will be important. Check statements for accuracy and any liabilities including asset schedules, equipment serial numbers and livestock identification tags. As regulatory oversight heightens, expect your lender to ask for more information and documentation.

Another "To Do" item is to manage from accrual adjusted statements. Schedule F records are a tax requirement, not a management tool. Adjusted to minimize income, Schedule F records will not give an accurate accounting of financials which one must have in order to plan improvement. Especially during an economic down cycle, make accrual adjusted accounting a regular part of your financial management.

After my neighbor had jotted down the ten points, we ended our time discussing the difficulties of implementation. Yet, the key to business success is to formulate a plan and stick to it. Execution is often the weakest variable in management. Sometimes monitoring results with a team of advisors encourages accountability and the execution of the plan.

In conclusion, my advice from the tractor cab is to "sweat the small stuff." Attempt to improve incrementally across many areas of your business rather than focusing on one, major adjustment or what I call, the magical silver bullet. Like my neighbor, be a good list maker and doer!

P.S. Who in your circle of business professionals holds you accountable? Is it your spouse, partner, lender, farm management instructor, production consultant, peers or others? Remember that part of management success is interdependence with a good, positive network of people!