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**Agricultural Finance and Small Business Management**

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

Vol. #75



### **Good Reasons to Start Growing the Business Now**

By: Dr. David M. Kohl

It is that exciting time of year when the spring sunrises and sunsets start to grow further apart and the days become longer. The smell of dirt, energetic livestock, and the open farm shop door are all familiar and welcome signs of spring. In agriculture, a new year always brings the promise of new opportunities; especially for some. Recently, a producer questioned me saying, "How could now be a good time to grow the business or start farming?" Well, that is a reasonable question. Let's examine exactly how these economic times might benefit some agricultural businesses.

My good friend, Dr. Danny Klinefelter of Texas A&M often states that timing is the critical element in business success. Building upon that point of view, now, rather than five years ago at the peak of the commodity super cycle is a better time to start or expand the business. For example, a young farmer recently purchased a self-propelled forage harvester in good condition for \$28,000 at a distressed sale. The original price of this model was \$125,000. He expanded his beef operation by purchasing high quality bred heifers at \$1400 each which is half of the investment from three years ago. This individual was also able to expand his acreage, negotiating land at two-thirds of its previous price per acre because a larger producer could no longer pay the rent.

This young producer also offered four years of crop and yield data on the farm with drone imagery for his new landlord. He made suggestions for improvements to the land and gave examples of practices he planned to use, which he had already used successfully on other farms. As an aside, this producer also told me that he had purposely left a bit of cash at the bank earning minimal interest. I would say that he more than made up for this lower interest rate by the speed at which he was able to deploy the extra cash to take advantage of a timely opportunity; thus, increasing his rate of return dramatically.

Another benefit to today's economic environment is its incentives for sound management practices. In fact, good management practices can overcome some of the advantages of high-equity in today's farm business. For some of the farm



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businesses with strong equity, complacency has been a predominant issue. Yes, lenders and others will require more documentation and better quality information. Yes, producers need to know their cost of production, and yes, financial management takes time and planning. However, these are foundational practices for any successful business, in any environment. Beginning or expanding farmers will grow accustomed and competent with these management practices which will serve them well into the future. Remember, even good management tends to improve when a lender or most any other third-party is helping to monitor the process. As a matter of fact, business management really begins to shine when one develops an efficient system of production, marketing and finance that is replicable.

Generally, Gen X and Millennial producers are considered multi-taskers. When starting or growing a business, multiple jobs may be a reality, and technology and mobility allows these younger generations to be entrepreneurial. Sometimes these younger producers have enough flexibility at their professional employment to operate a farm as a second job. Others will utilize their off-farm earnings as a source of financial liquidity and borrowing power to acquire productive assets. Often, this approach leads to increased profitability. As one young lender observed, the last generation would have had a difficult time being a lender and operating a 1500 acre farm, but today's efficiency in equipment and technology makes it possible.

Another benefit of balancing off-farm and on-farm work responsibilities is the synergy that exists between the two. For example, as a lender, one observes the successes and failures of other businesses that are likely to be helpful. Of course as a producer, the hands-on perspective of production can also benefit the daily challenges of a lender. In short, multiple job responsibilities, especially inside the same industry can be quite complementary of one another.

Despite the depressed economics, agriculture is in a transformative stage. Organic production, local niche markets and aligning with large domestic and global markets are now possibilities for those who aspire to farm. Many of those driving this transition are younger producers that have worked and lived away from the farm are now returning to agriculture. They bring a new and expanded understanding of emerging markets and consumer demands, which provides a bridge for business change.

Previously, it was common for children and grandchildren to want to continue the family farm business. Today, one in five family farm businesses will not undergo generational transition within their family. For some producers this may welcome retirement, but for others, it creates different opportunity. Yes, it requires at least two producers with productive, progressive and open mind-sets, but those are also requirements for a strong partnership. In these types of partnerships there is frequently a formal business agreement which creates a



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true business approach, and perhaps better communication when compared to family businesses.

Another attribute of the younger generation that can promote growth today is their general willingness to collaborate. Many times, they are willing to share talent, assets and even possible markets. Sometimes, it can be economically advantageous to rent instead of own which this generation has realized. Leasing, renting, and crop and livestock sharing are much more amenable today than even five or ten years ago.

Globally, the demand for food, fiber and fuel continues to increase. In just over 30 years, 70 percent more output will be needed to meet a growing demand. The key question is what percentage of our resources in land, labor and capital will be required to produce this increase. A focus on efficiency, instead of size will be an avenue for success for many.

Land asset turnover will accelerate between now and 2030. As the senior generation phases out of the business, opportunities will abound for younger producers to acquire and expand existing business models. Some experts indicate up to 60 percent of farm business assets are ripe for turnover, which may be accelerated by current economic conditions.

Another important element in today's environment is the overt willingness of lenders, bankers, institutions, agribusinesses and others to support growth or expansion especially for young and beginning farmers. Whether in the form of lower interest rate loans, lower down payments, flexibility in payment plans, and yes, educational opportunities, the avenues and options are nearly unlimited. However, as with any business venture, success with these tools requires an individual with the initiative to follow through and make a commitment.

Finally, some may argue that there are skills and lessons that can only be learned on a farm. The skills learned from farming cannot be given a one-day score, like an aptitude test. Rather, the experiences in a farm business develop emotional intelligence. Agriculture-related organizations like FFA and other youth organizations are also great avenues through which to build life skills.

In actuality, there are numerous reasons why today is a better time to grow your farm or start a farm business than just five years ago. Most likely, those productive producers looking for partners or opportunities have their own reasons for timing as well. So, add these reasons to your list and discover what the sunny side of a down cycle can offer for you.

As you move into the fields and longer days, be safe and remember to work smart: take breaks from the tractor and enjoy life!



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