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Successful Habits of Young Producers
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In Virginia, spring is beginning to intersperse warmer temperatures among the cold and blustery days of winter. Today boasts plenty of sunshine as well as a perfect opportunity to reflect on the characteristics of young and successful farmers. Through the years, I have worked with nationally and internationally recognized colleagues, as well as farm management instructors, lenders, and producers. Together, they are a rich resource of people, successful in all types of economic cycles. Drawing from their years of wisdom and experience, let's examine some of the habits they employed for success. Of course, these habits do not guarantee success, but certainly increase the probability significantly for all young agriculturalists.

The first attribute that comes to mind is one of the most basic: know your cost of production. This number can be integrated into marketing plans, as well as optimal uses for resources such as land, labor, and capital. For many young producers, their ongoing drive towards efficiency is a large part of their success. While improving efficiency, they maintain production levels or implement an optimal combination of cost and price that enhances their margins. And for multiple enterprises, knowing the cost of production by enterprise is also essential. With expanded use of technology and information, producers will need to separate costs and profits by the field or animal unit. In fact, this type of attention will be a megatrend of the future as it provides the needed competitive edge. In a recent survey of 400 producers, only 21 percent knew their cost of production.

Another critical attribute mentioned by a bank CEO of 40 years was investment in productive assets. This includes livestock, machinery, land, and even the human asset. One common mistake of young producers is to overpay for marginal assets in the top part of an economic cycle. Of course, another difficulty with assets for young producers is returning to the farm with excitement and energy, only to find rusted and outdated resources. And this issue can be compounded by siblings and relatives who presume the assets are worth much more than they are. One recommendation for young producers is to hire a third-party to examine the asset base including the management culture. This can save tons of financial and emotional heartbreak three to five years into the future. Remember that assets are most productive if aligned with the skill base of the individual. Some may prefer the latest technology, where others may have the mechanical skills to maintain good used equipment. Others will seek specific assets to meet the demands of niche markets, specialized production methods, or consumer preferences.

Next, the majority of successful young producers watches family living costs and maintains modest personal spending. Often, they balance their business objectives with family and personal lives, and conduct critical conversations regarding the use of off farm income, or work in multiple businesses and entities. In actuality, modest family living costs can free up the cash flow needed to service debt or build the business. Connected to today's readily available information, successful young producers are paying attention to the farm record data that confirms an up to $60,000 difference in living costs between similar-sized farm and ranch businesses.

Today, successful young producers tend to be interdependent rather than independent. More young producers are collaborating on assets or talent sharing to drive down costs and maintain an asset-lite business. Sharing equipment or a bookkeeper are just two examples of ways today's producers are using interdependence to drive efficiency. Of course, this approach often includes collaborating with others such as a team of advisors or a peer group in order to benefit from the collective wisdom.

Another special characteristic of most successful young producers is that they manage the factors they can, and manage around the rest. For example, no one can accurately predict weather all the time so prudent producers mitigate risk through crop insurance and crop rotation. They resist the urge to wait for higher prices and execute the marketing plan, selling the crop at a specified margin of profit. From diversification to seed technology, these producers manage the factors that can keep them a step ahead the rest.

Recently, I worked with a young, small dairyman, who exhibited encouraging results. The dairy industry is in the height of a prolonged economic downturn. And in order to survive, this individual follows the four cornerstones of management: planning, strategizing, executing, and monitoring. He started with business, family, and personal goals. This included one year and five year goals. Next, he prioritized his goals and then made his strategy from the top three priorities. He continues to be diligent in executing the strategy, which in his case focuses on a high-quality crop and incentives for quality milk. The attribute that really sets him apart is his monitoring of cash flow and subsequent adjustments in production, cost, marketing, and even family living expenses. Each quarter, he meets with his lender, farm management instructor, and two peer mentors that all stay abreast of his business. This part of the economic cycle is not one of robust profits, but this dairy producer is making enough to service his debt and build earned net worth on the balance sheet through management. That's encouraging.

For many young producers, paying taxes is just a necessary practice in building a business. While previous generations have made a point to minimize taxes, today's young producers are managing their tax payments much like they would retirement contributions or investments. Of course, tax reduction is a component of good business planning, but paying a little income tax should also be part of the overall plan. December can be a tempting time for producers to make capital purchases in an attempt to minimize taxes, but tax management involves the big picture of the business, not just the tax bill.

One long-standing attribute of successful young producers is that they are judicious in allocating profits. They use their resources thoughtfully and carefully. First, they will seek methods to build efficiency in the business. Then, they allocate their dollars in the places with the biggest rate of return.

Next, these young producers know that in order to successfully grow the business, they must stay within acceptable financial metrics. Specifically, working capital to expenses, and term debt to EBITDA are two important ratios to consider. Working capital to expenses should remain above 25 percent. EBITDA refers to net income plus interest and depreciation. The term debt to EBITDA ratio should be kept under 6:1. Another good metric to include on the financial dashboard is the debt to asset ratio as it is a good measure of general financial health.

Finally, successful young producers tend to be goal driven. In addition, their goals are most often balanced between work, family, and a personal life. One producer recently shared that he had set a goal in 1979 of being a millionaire by 1985. Well, the farm crisis of the 1980s hit and he leaned on his wife and a neighbor to weather the storm. He learned the value of family and community, and now forty years later is transitioning a successful business to the next generation. Of course, he did eventually become a millionaire on paper, but his journey went far beyond money. As he introduced his family, one could easily tell what he considered his true wealth.

While these practices are particularly pertinent for beginning producers, they are also valuable for producers of any age. As the economic reset continues, these common habits may help families and businesses define what success is and how to best realize it. There are no guarantees in life, but there certainly are many ways to influence the outcomes.