David M. Kohl

Professor, Virginia Tech

Agricultural Finance and Small Business Management

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Lessons Learned in Business

By: Dr. David M. Kohl

As you are reading the final edition of the Farm Management Newsletter, we are now on "fast time" as Spring approaches. The days across the upper Midwest are getting progressively longer and Spring's eternal hope is in the air. In this newsletter, I would like to discuss my lessons learned being in business and working as a business consultant. I trust that the lessons can be valuable in your business, family, and personal lives.

Start young:

My journey in business started in upstate New York next to Lake Ontario on my family's dairy farm. My vocational agriculture teacher, Mr. Greene, was very forward thinking in terms of business and financial management. Mr. Greene was a World War II veteran and fought in the Battle of the Bulge. He was a tough, no-nonsense person, but was also visionary and compassionate. He provided oversight of the longest continuous vocational high school agriculture program in the United States. Union Academy at Belleville also inducted the first female FFA member, two years before the national organization recognized female members. Mr. Greene required his students to complete a farm inventory and balance sheet on the family farm business or a business that they were associated with. You would be rewarded with five extra bonus points if you could get the liabilities and complete a cash flow statement. This exercise paid dividends for my career as an educator and operating a dairy and farm business in Virginia. My parents would even ask me for these statements when they completed their income taxes and statements from their lender. Mr. Greene taught two key ratios: percent equity and debt service to farm revenue, which are still used in financial analysis decades later.

Personality profile:

One of the best people skills and tools I have learned occurred at the Roy Ferguson Agri-Management Institute in Tulsa, Oklahoma, in 1989. Gary Maas, a human resource consultant, put us through the DiSC personality profile. Wow, was this an eye-opener in communicating with people, which is often one of the top challenges in business. I utilize this tool in my classes, at lending schools, and during young farmer conferences. Whether dealing with an adverse airline problem or organizing a team, the DiSC personality assessment has taught me that you must be flexible and aligned with the personality profiles of others.

The power of the cash flow statement:
I have taught business planning for many decades to various groups at different levels. Eighty percent of a business plan is the cash flow. This is because you must think through a plan for operations including marketing, finance, and risk management when completing a cash flow. Cash flow projections and a variance analysis comparing actual results versus projections provided the structure and discipline for adjustments in our business strategy for the creamery. A financial sensitivity analysis provides parameters for outcomes which can help determine actions. Twenty years later, the creamery now measures cash flow results weekly as a result of the management intensity required by the pandemic, inflation, and margin challenges.

The 25% rule:
The 25 percent rule can be applied to money as well as time when managing projects and new initiatives. Always overestimate both time and money by a minimum of 25 percent. In recent times, supply chain issues along with inflation have placed this factor in high relevance.

Another 25 percent rule pertains to capital expenditures in annual projections. First, make a list of needs and wants. Then, prioritize the list by high, medium, and low priority. Next, add at least 25 percent for unexpected capital expenditures such as the motor going out on the grain truck, an unusual loss of livestock or equipment, or someone putting gasoline in the diesel tank. This extra 25 percent line item on the creamery budget is called “life happens” or Murphy's Law.

Better before bigger:
The first three years of the creamery business, during which I was not an owner, got off to a tough start. Cost overruns, overestimating market expectations, and products not aligned to the marketplace resulted in a seven-figure loss. This is where I cut my teeth on the lessons learned from working as a third-party consultant during the 1980s farm crisis. The business was losing about $40,000 a month. However, the owners were committed, and you could tell by the look in their eyes. It was the same look that some athletes have in certain situations. While the owners wanted to grow their way to prosperity, I suggested a combination of efficiency and growth. We developed a 10-point strategy with eight points representing efficiency and two points directed toward growth. If the creamery would have only focused on growth, the losses would have compounded themselves and become more negative. The strategies to become more efficient included cutting waste on profitable product lines, labor management, emphasizing profitable product lines, and focusing on customers. It took 10

years to pay off that seven-figure loss. As one of the owners correctly stated, the process was expensive tuition.

Financial transparency:
When a business is doing well, there is a natural tendency to become complacent. Another issue in some businesses is “drive-by” financial observations, which is reviewing financials only once per year to reduce income tax liabilities. Some business owners turn the books over to an accountant and assume that everything is okay because they are too busy worrying about day-to-day operations. I have observed each of these aforementioned issues over the years and in our business as well. Complacency can lead to mediocre outcomes and missed opportunities.

Every business needs a Marge. When I was growing up, the local John Deere dealership had an account manager named Marge. She could wilt farmers with the biggest egos very quickly if they did not pay their bills on time. Marge knew where the John Deere dealership business was at any point in time and there were no fraudulent financial activities by the owners, managers, or employees lest they receive the wrath of Marge. There is an old saying that goes with operating a business, “Good times often bring greed chasing the next big thing.” Remember, greed's cousin is fraud, which is being observed daily in many facets of life here in the 21st century.

Chessboard:
The business journey is like a chessboard with thousands of possible moves. Cash and working capital are analogous to the queen in chess, which is a key player as a blocking strategy for adversity and if opportunities occur. Cash and working capital are analogous to the oil and grease that prevents your business engine from locking or burning up. Maintaining working capital and cash takes considerable discipline, which sometimes means foregoing short run opportunities for the benefit of the long run. I remember one producer at the International Center in Rochester, Minnesota, who challenged me concerning my presentation. He said, “I know what you are going to say! Stash your cash and build working capital!” I then asked, “Why did you come to the event?” He quickly stated, “I need to be reminded by someone else about their importance.”

Take the high ground:
Whether it is business dealings or everyday interaction, your business decisions need to be made with your core values in mind. Also keep in mind that operating a business is more than just profitability and the bottom line. The best crop you will ever raise will be your children or a person that is interested in agriculture that might need assistance in life.

This concludes our newsletter series for another year. Have a good, safe spring and summer and hopefully we will get a chance to see all of you in person somewhere down the road.