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Agricultural Finance and Small Business Management

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Dialogue with Dr. Dave

By: Dr. David M. Kohl

The final edition in this series of farm management newsletters will summarize conversations from some of the common questions received from a wide spectrum of groups and individuals. In my speeches, seminars, and webcasts, the dialogue with the participants is often the most enjoyable aspect of being an educator in an attempt to give back to the agriculture industry.

What will be some of the super disruptors on the radar screen that will impact the economy and the agriculture industry?

As discussed in previous articles, the demographics in the U.S. and in other parts of the world, but specifically in agriculture, are definitely front and center. Sixty percent of farmland in the U.S. will transition to new owners between 2025 and 2040, much of which is owned by older females and family members who have moved from the area. Management of the family transition will be one of the top three challenges, but also an opportunity, facing agriculture in the U.S. and worldwide. Twenty-one percent of U.S. farms and ranches have no next generation. Landlord management and aligning with individuals that may provide an opportunity to own a business will be a high priority.

The movement from fossil fuels to green energy, environmental, social, and governance (ESG) principles, and artificial intelligence (AI) will each go through three distinct stages of adoption. In recent years, these trends have been in the infatuation stage fueled by mainstream and social media and government and societal agendas in the United States and worldwide. In the next few years, the disillusionment stage will intensify. In this phase, both positive and negative unintended consequences will be discussed and addressed, and strategies will be adjusted. The final stage will be the reorientation or re-enchantment stage where innovation and new initiatives will be implemented in a positive cost-benefit and societal perspective. The agriculture industry and individual producers will need to be informed and make appropriate adjustments as these trends evolve.



What are the biggest mistakes agriculture producers make?

In my decades as an educator and practitioner, some of the biggest mistakes centered on not keeping an eye on the ball, or the basics. Producers need to maintain focus on the simple things such as establishing written goals, developing and monitoring a quarterly cash flow, separating business and household budgets, knowing your breakeven point, and calculating your cost of production. Examining the financial situation only once per year for tax reasons will go down as one of the worst management practices.

Other basics include risk management such as having insurance in place to cover debt obligations and having a will for estate planning. Another common mistake is not having a safe and secure place for critical documents and backup copies that are accessible. It is okay to make a profit, pay some income taxes, and set aside profits to build working capital. Very few producers execute this strategy, which can lead to short-term financial distress. Having a deliberate vacation or time-off plan to re-energize the mind, body, and spirit is a must in today's turbulent world. Finally, shut off the technology regularly so that you can hear yourself think and reflect. This allows one to refocus, reset, and eliminate many of the energy drains from the business, body, and mind.

How do you position for extreme volatility?

Recently, I conducted an informal survey of five producers who are effective at managing extremes in economic volatility along with the tight margin tightrope that is now front and center in the agriculture industry. Here is a summary of their responses.

The marketing and risk management plan should focus on “base hits” or incremental profits and minimizing losses. They stated to let the “home run hitters” have their day two out of every ten years and that they will be satisfied with small profits and gains or the “base hits” in the other eight years.

Two of the producers indicated that they could not handle the emotional roller coaster of economic volatility. The cure was to engage a team of advisors or assistant coaches to provide input and feedback so that more informed and objective decisions could be made.

Tight margins and extreme volatility, no problem! A common theme was that these producers were deliberate about building and preserving working capital. Each producer maintained 40 percent of working capital to expenses over the past three years. They are also cognizant of the quality of working capital such as having a marketing plan for livestock and insurance on crops being grown for sale. The producers also keep a cash balance over and above the operating lines of credit to quickly take advantage of investment opportunities and discounts as they occur. These effective producers prioritize monitoring working capital levels, capital



expenditures, and the tax plan trifecta with input from professionals or financial facilitators.

Books and videos that have changed my life.

There are a number of good readings and videos that have been game changers.

- *How to Read a Person Like a Book* by Nierenberg and Calero was an influential book in my early days as a basketball player and coach. Even today with technology, nonverbal communication is a major form of communication.
- *Megatrends* by John Naisbitt was a required reading in graduate school at Cornell University that influenced my thinking about trends. It still holds true today that as we become more high-tech, the more high-touch human aspect is needed.
- *The Psychology of Money* by Morgan Housel, *The Pyramid of Success* by John Wooden, and *The Ultimate Gift* by Jim Stovall are must-reads for business people in transition or wanting to learn about investments.
- From VHS to YouTube, Tom Peters' video and book *A Passion for Excellence*, which discusses business success, was one I used in classes and is still very relevant today.
- *The Accidental Superpower* by Peter Zeihan and his short videos on YouTube really make one think from a broader perspective, even if you do not agree with all of his points.

Quick hitters

- If you inherit \$100,000, within 17 months most people will have nothing to show for it. This is a perspective for estate and transition planning.
- Success is not based on how smart you are, but your ability to connect with people and your surroundings.
- Your financial net worth and quality of life can be correlated to the people with whom you associate.
- In agriculture there is no next big thing or quick riches. It is about focusing on the fundamentals with an execution and monitoring plan.
- Success can be measured in dollars signs, but significance is about making a difference in people's lives.



Have a good spring and summer! Always cherish your conversations with other people and continue to smile.



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