

David M. Kohl

Professor, Virginia Tech

Agricultural Finance and Small Business Management

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Compelling Reasons to Stay in Agriculture

By: Dr. David M. Kohl

The stage was set at the opera house in Bruning, Nebraska, population 276, for the annual Farmers and Ranchers College. After late-night flight issues as usual, I was presenting the program after just three hours of sleep. Perhaps a bit grumpy, apparently I did not paint a rosy picture of the future of agriculture because of discussion about declining commodity prices and overall uncertainty in agriculture. That was the thought of one particular 28-year-old in the audience who saw the economic and opportunity cup half-empty rather than half-full. He stated with a written question, "Give me a compelling reason to remain in the agriculture industry." Let's build a case for some of the thoughts presented on stage that day in Cornhusker country.

Profitability

While the red-hot economics on the grain side of the industry may be moderating, there are still profits and wealth accumulation possibilities. One only has to examine historical FINBIN data to verify this. Since 1995, the top 20 percent of both crop and livestock producers in the database had a rate of return on assets (ROA) of 10 percent or more. Name any other industry over that time span with this level of returns. The average producers, particularly in recent years, generated a return of 10 percent or more also. However, I explained very candidly that the bottom 20 percent of producers had returns of 1 percent or negative over the time span, probably remaining in business because of land value appreciation. My direct comment to this young group was if you plan to set your sights on being an average manager, the time to exit the industry would be now. Remember the average manager has a shelf life of approximately five years in a moderating or down part of any business economic cycle.

One Size Does Not Fit All

Another compelling reason to be involved in agriculture is that it is not one size that fits all. The local, natural, and organic segment is growing and is now referred to as the agricultural retail entrepreneurial segment. To be successful in this sector, one must be an astute planner who strategizes and executes the game plan with a focus on marketing and cost efficiency. Lenders will demand and expect a well-thought-out business plan.

Others may want to operate a traditional family farm business. Prominent skill sets of the younger generation such as use of technology and multitasking allow for outside employment and profitable economics of farming. Time management, debt control, and family living moderation will be critical modes of action for this segment.



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Some will enter larger more complex businesses with multiple entities. A major trend being observed amongst this group is non-family partners and equity positions. With 20 percent to 25 percent of American farmers lacking a family successor from the next generation, opportunities abound for young people who are willing to step up to the plate. In larger farm and agribusiness operations, business systems, procedures, and protocols with a high level of business acumen will be necessary for success.

Technology

Technology is another compelling reason for the younger generation to be involved in agriculture. Engineering technology, information technology, and biotechnology are being adopted and implemented at an accelerated pace in agriculture. The key for the senior generation is to surround themselves with youth that understand technology but still have old-timey work habits and people skills. The sky is the limit for young people in many diverse areas of agriculture, including farming and ranching, agribusiness, lending, or any sector connected agriculture.

Whether it is GPS, AutoTrac, seed technology, livestock genetics, or robotics, the next generation of agriculturalists will need to be educated in multiple skills and be prepared for lifelong learning. Organizations and businesses will need to think of people not as a cost, but as an investment similar to land, equipment, and facilities. To the younger generation, it will be critical to align with businesses that allow you to grow, be educated, and be mentored. If you are not in this type of situation, it may be time for a change to achieve fulfillment and success.

Opportunity in a Downturn

Another nugget of advice to the younger generation is that the best time to enter an industry is when everyone else wants to exit. For example, in recent years resources exited the livestock sector including beef, dairy, and pork, to enter the grain sector. This exodus has created opportunities in livestock for more profit potential as the supply and demand balances. When the economic winter season bestows itself on a sector, new creative ideas and strategies are often implemented in a profitable manner.

Global Demand

Finally, a compelling reason be involved in agriculture is, of course, global demand for food, fiber, and fuel. However, do not forget domestic markets, as 25 percent of the marketplace resides right here in the U.S., which will become even more consumer driven. Alignment and connection with the public who are two generations away from the farm can be a great opportunity for young people with a skill set to interact with those having an urban or suburban background. Within all of these reasons, an often overlooked factor is that agricultural and rural businesses and areas can be a good place to raise a family and the next generation of agriculturalists.

Well, I rest my case on compelling reasons to be involved in agriculture. The cup is half full for young persons who are lifelong learners, desire to work with people having wide range of backgrounds, think globally but understand local dynamics, and can execute a game plan in business and life.



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