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**Agricultural Finance and Small Business Management**

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### Lessons Learned from the 1980's

By: Dr. David M. Kohl

As the agriculture industry fully engages into the economic reset, managers at all levels are dusting off the playbook from the 1980s farm crisis. In the agriculture industry, beyond the farm gate, 95 percent of the institutional memory from the 1980s will leave the industry within the next five years. History does have a tendency to repeat, but perhaps there are some lessons to examine from the past in order to yield a better outlook for the future.

#### Financial Leverage Kills

There is an old saying “financial leverage is a business killer.” Emphasized by the downside of the cycle, financial debt is especially dangerous if used for unproductive or inefficient assets, or for overzealous business growth. In the 1980s, a large majority of the business losses were exhibited in businesses with a debt to asset ratio level above 50 percent, and commonly, above 75 percent. This type of ratio level often makes young farmers and capital-intensive industries extremely vulnerable to the economic downturn.

#### High Living

There is a natural tendency to expand one's lifestyle in good economic times. Additionally, excessive life choices are not limited to just one generation. Producers that successfully navigated the economic difficulties of the 1980s were able to cut expenses and often supplement the financials with non-farm earnings. In either case, it is a challenge. One solution is a personal living budget with a specified withdrawal amount on a regular basis. This approach causes one to live within those means; a necessary strategy in tight economic times.



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## Good Times and Bad Times

Remember that good economic times do not last forever nor do the bad times. In the 1980s, many forgot this principle. Eventually, of course, the 1980s financial crisis ran its course and improvements began. Those producers that positioned the business to capitalize on opportunity and engage in some calculated risks increased balance sheet wealth substantially. Yes, the 1980s time period brought opportunity for many. In fact, both the Great Depression Era of the 1930s and the 1980s farm crisis presented numerous windows of opportunity. As today, the key element for success during economic reset is timing.

## The 1980s Made Managers Better

Some of the best management strategies come from times of economic stress. The best managers in the 1980s utilized a focused strategy. Often, they decreased business size or developed diversification strategies to increase income and profit streams. Sometimes, what seems like a step backwards is actually a step forward! Eliminating unproductive assets and carefully assessing your net incomes through sound budgeting can pay dividends regardless of the economic cycle.

## Government Programs and International Trade

The 1980s farm downturn as well as the post-crisis timeframe was laden with government assistance. This assistance ranged from direct farm program payments to financial systems with low interest or even interest-deferred loan. However, that was a different time and place. Farm programs have been completely restructured since the 1980s. With less political support for agriculture, stressed government budgets and loss of institutional knowledge, today's government support will be minimal. Additionally, one of today's biggest risks for producers will be international trade. Political, military, and economic sanctions can develop quickly, changing profits for agriculture. The government's role as a fallback partner or market catalyst has changed.

## If it grows too fast, it is a weed!

Growth is the number one reason behind business failure. Whether it is a business investment or a market, be careful when either outgrows the fundamental, underlying supports. Often, rapid growth exceeds the current financial system; specifically, working capital and liquidity. Businesses can rapidly grow beyond other systems as well including, operational, marketing or human resources. Usually, this creates inefficiencies that result in reduced or negative profit margins. Remember, improvement most often comes in small, incremental steps.



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## People, Pressure, and Communications

Extreme stress and pressure can lead one to do unusual things. Knowing your communication style as well as that of others is critical in navigating stressful times. Some individuals may choose denial while others may turn to substance abuse or other abnormal behaviors. These types of detrimental responses will strain relationships both inside and outside of the business. Open and clear communication is essential. Remember that a third-party may be helpful in facilitating communications.

## Learning...Educational Opportunities

Any economic cycle presents opportunity to engage in business and personal improvement, but especially an economic reset. For example, without the 1980s farm crisis, the Farm Financial Standards Task Force that developed key ratios, benchmarks, and standardized financial statements, would not have been developed. Education at all business levels, regardless of age, education, or size of business, was an outcome of the 1980s and will be of today's economic reset as well. Learning truly is a privilege.

While there are certainly additional lessons to learn from the 1980s, a prevalent theme to examine is opportunity. The old adage says "hindsight is 20/20." Therefore, turn that powerful knowledge of the past into foresight for the future. Embrace the change of this economic cycle as your playbook evolves.



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