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Top Management: Views from the Road

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One of the benefits of speaking at events throughout the country is the occasion to interact and engage people who operate, manage, consult, or service the businesses on the front lines of agriculture. Of course, today's economic environment is presenting many challenges, but it is also opening opportunity for others. For those that are proactive, there are some common practices among the best managers. Let's examine a number of these different scenarios.

One young producer farmed a large amount of rented and decided to drop 3,000 acres due to other aggressive bids that were beyond his economics. As a result, he is now utilizing technology to measure his profitability by field, from which he developed a method to be more selective in landlords and land. This approach allows him to pay more for the fields that best fit his operation by considering yield potential, operational logistics and management systems. By reducing his acreage and re-thinking his entire business strategy, this producer increased his net income by \$278,000.

Another producer stashed working capital during the go-go years of the agricultural economic super cycle. This producer maintains 40 percent of his expenses in working capital, which of course, serves as a second line of defense in case of financial losses. However, more than just security, the extra cash is now enhancing cost reductions and adding to the bottom line. This producer uses cash payments to take advantage of discounts on fertilizer, seed, and feed for his diversified operation. It is true that liquid assets often sit with very little return for one to two years at a time; but today, these cash assets can pay double-digit returns in a buyer's market.

Additional realized benefits from cash and liquidity include purchasing capital assets at significant discounts, and increased flexibility in marketing and timing. One producer recently purchased two pieces of large equipment for \$0.60 on the dollar. Another found he was able to market both his stored grain and penned cattle at higher prices. Often, an economic reset provides short bursts of profitable prices, and because his need for cash was not pressing, he had the luxury of waiting to sell until prices hit his profit mark.



In another instance, one couple worked with a farm management consultant and picked apart their family living expenses. They utilized state databases that separated and analyzed the different areas of family living from other farm businesses. They discovered that their miscellaneous category was the culprit for over 15 percent of the total family living cost. By tracking monthly expenses in a spreadsheet, this couple decreased their family living expenses from over \$100,000 to \$68,000 annually, despite their healthcare premiums doubling. When allocated to the farm enterprise budgets, the savings amounted to nearly \$0.23 per bushel on the grain and \$0.12 per pound on the feeder steer operation.

As a whole, the dairy industry is perhaps the most financially stressed agricultural sector as observed to this point. During a tour of his farm, one dairy producer was asked how he was surviving the challenging economics. He quickly pointed out that his CFO reviewed financials every two weeks, and each time a milk check was deposited. This financial scrutiny allowed them to tweak the business strategy as economic, agronomic, and marketing conditions changed. When asked who his CFO was, the producer gave a little smile and shared that it was his wife. Much like the environment in the 1980s, financial stress sometimes calls for teamwork to make it through.

In one situation, a young producer and his spouse were experiencing difficulty in getting their parents and grandparents to conduct formal transition planning. After a suggestion in a seminar, they decided to engage the senior generations in the process of writing the business and family history. The young spouse climbed the 80ft silo to take panorama views of the farm, and helped the children conduct interviews with their grandparents and great-grandparents. This process developed a heart-warming video and album, which was presented to the whole family at a holiday gathering. With the presentation, the young couple told the parents and grandparents that they wanted the treasure of the family and business legacy to be carried on, and that they felt a transition plan was the way they could make sure that happened. The older generations agreed and started the process by hiring a facilitator. During the family's first session, the facilitator conducted the "drop dead" exercise where one random member of the family is deemed dead and silent while the other stakeholders were forced to figure out the next steps. Of course, it was humorous when the "dead" person attempted to provide input.

As demonstrated by this young couple, one major frustration of the junior generation waiting for the transfer of management and responsibilities without a clear timeframe or plan. Yet, this couple was creative in ways that connected the three generations and accomplished their goal of formal planning. Thus, when handled proactively, the process can alleviate the angst and fear of all involved, as well as strengthen the legacy. Of course, if transition is not completed, there are only two winners: high-priced lawyers and Uncle Sam.



As another example of top management, one producer realized he had the wrong team member, which in this case, was his son. Neither the son's interest nor talents were being engaged on the farm, and so the father let him go. Shortly after, he hired his daughter, who was very passionate for the farm and one year later, everyone in the family was happier. The son had found a position that fit his work and life balance, as well as his skills and talent. And with her engineering and accounting degrees, the daughter developed a new financial management system that tweaked marketing and cuts costs without sacrificing production. Today, the business is profitable. Best of all, the son and grandchildren look forward to their frequent visits to the farm. This exemplifies the importance of matching the right people and talents to the right job and responsibilities because otherwise, the profits, people, and overall energy of the business will suffer.

One last practice of today's top managers is utilizing available consult and guidance. For one farmer, his farm management consultant pulled him out of a financially draining rut, and introduced him to the positive value of peer support and advisors. An advisory team could include one's lender, production consultant, non-agricultural professional, or others. One of my favorite life principles is that one's net worth (financially and psychologically) is directly correlated to one's network of people.

Finally, as one strives to improve management as well as the bottom line, it is important to be open to new ideas and change. In meetings with educators or advisors, be a sponge. Absorb all that you can in order to develop your own top management practices. Making changes in the factors one can control is often a shot of motivation, which is always helpful especially in a world inundated with negative and uncontrollable events.

