

David M. Kohl

Professor, Virginia Tech

Agricultural Finance and Small Business Management

This is one of a series of articles written by Dr. David Kohl for the Minnesota State Farm Business Management Education Program.

Vol. #79



Open Forum with the Doc

By: Dr. David M. Kohl

One of the aspects of speaking and conducting seminars I enjoy most is questions. In fact, sometimes I provide notecards for written questions. Frequently, I get so many back, and on such a wide range of topics that I flip through them and provide short responses for as many as possible in the time allowed. Because I consider these questions so valuable, below is a compilation of some of the most popular ones from my travels last year.

Can a young farmer compete against the tenured, high equity producer?

Yes. But it requires focus, which means a written business plan that is well developed. This allows the young producer to detail strategies in lowering overhead costs like the sharing of assets in labor and management. This can provide a competitive edge. In addition, more young producers are multitaskers, and have secured several sources of income. This can range from spousal support in income, to off-farm employment, and separate entities or businesses. This type of varied environment often creates synergy and generates new ideas that are then implemented back into the farm business. Finally, as a competitive young farmer, one cannot be focused on farming in five states. Rather, young producers need to be better before they are bigger. Actually, getting better before bigger is a good rule for any business.

Is now a good time to start in agriculture?

Now is a good time to make one's start in an agricultural business, and certainly better than five years ago. To start, farm machinery and livestock are much cheaper today. Next, more of the older generation is sharing that farming is losing its enjoyment for them. They are ready to exit the business or bring on younger managers. This provides opportunity not seen the past decade. In addition, over 20 percent of U.S. farmers and ranchers have no next generation returning to the farm management. Further, niche markets are exploding bringing broadened marketing opportunities, especially in certain sections of the country. And today more than ever, FSA and other lenders offer young and beginning farmer and rancher programs that include special finance terms and rates. Lastly, the upswing of technology in



MINNESOTA STATE

agriculture is a real area of opportunity for younger producers. From efficiency through mechanization, to data for information management, agricultural technology can provide a young producer with boundless opportunities.

I am frustrated that my brother will not participate in business planning and goal setting. What can we do?

Whether it is a brother, mother, uncle, or cousin, I hear this often. And it seems more common among the larger, more complex farms and family businesses. In some cases, the owner family members are no longer the most capable managers, but want to maintain their level of compensation and clout. This can be a business-killer. This mentality can sacrifice the energy and culture of the business, which often results in the exit of the younger generation, some type of liquidation, or both. If an individual does not participate in management planning, the alternative is a job description as a hired worker. Of course, any owner that is no longer actively managing can be compensated for ownership shares if the business performs. And those that are owners and active managers can be compensated for their shares as well as their management of the business. In situations like this one, it would be helpful to bring in a third-party to review job performances as well as descriptions for all those involved.

How do women fit into agriculture today?

In the past five years, female ownership and management in agriculture has become an accelerated trend. More women are involved in the various roles and responsibilities of the entire industry including finances, human resources, compliance, record-keeping, IT, and marketing. In sessions, it is clear that more women (spouses and not) have transitioned into the management aspects of the business. In agricultural lending, this continuing trend started about a decade ago. As a testament, the American Bankers Association hosted its first individual session specifically for women at this year's 65th Annual Conference. At women's conferences, more ask questions involving global macroeconomics and their impact on business. As demonstrated by the changing membership base in FFA and other state organizations, women are infusing every sector of the industry with new vigor and energy.

What trends are you watching?

One trend I am watching closely is the change in consumer diets. Both domestically and abroad, the consumer marketplace is in a splintering mode. One current example is the expansion of craft beers and microbreweries. Of course, I expect the same to occur with other commodities such as meat, milk, and even grain. In Germany, one in ten people are vegan; and U.S. numbers have increased from 1 to 5 percent. The Millennials and Gen Z Generations will seek food experiences with consumer convenience. Amazon and others will



turn the marketplace upside down, which will of course, impact the income statements and balance sheets of agriculture.

What tips do you have for youth?

Well, over the last forty years, I have taught over 10,000 students and numerous adult groups. My first tip is that colleges and universities are not for everyone. I have seen many well paid, highly rewarding careers come from vocational and technical degrees, as well as many challenging careers with a college diploma.

Specifically, the critical skills needed for the future will be information management, critical thinking, collaboration, and communication. In today's world of constant noise, data analysis and information management are a high priority. While schools often require memorization, the future of agriculture will require critical thinking. Tomorrow's leaders will be differentiated by the ability to think through scenarios individually and in collaboration to produce solutions and actionable alternatives. Finally, communication is key. The ability to communicate orally and in written form will be valued highly in any endeavor. However, one also needs to understand nonverbal communications and be a good listener. The development of one's emotional IQ involves listening and understanding people with empathy and humanity. These are sometimes called the soft skills, and will be essential. Remember *GWC*: those that get it, want it and have capacity for it.

My final tip for young people is to be careful of student loans and educational debt. While education is the road to betterment for many, too much debt can plague one's life for a very long time.

While this certainly is not a complete list, these questions represent some of the more popular ones from my sessions and travels last year. Indeed, they continue to be my best education. I hope to see many of you on the road this year with more questions!

