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Agricultural Finance and Small Business Management

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Views from the Road

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As a public speaker, it is an honor to address many leading national and international conferences. I enjoy engaging with attendees and sponsors and listening to other thought leaders assist in connecting the dots. In some cases, these conversations challenge or confirm various viewpoints. As we close down another decade in agriculture, the following are some perspectives to consider in your discussions and thoughts over the holidays. These points are based upon my observations and notes taken in recent months and accumulated over the decade from 2010 to 2020.

Characteristics of successful farms and ranches

Various academics and industry consultants have compiled a list of characteristics of successful farms and ranches. How does your business stack up?

Marketing and Risk Management

One characteristic is that they excel in marketing and risk management. A few cents here and there compound over time in an era of base hits versus home run economics. One speaker had a great quote, “Getting base hits will get you around the bases. Slow and steady wins the race.”

Entrepreneurial Spirit

Another characteristic is that many of the successful producers are very entrepreneurial and find ways to differentiate their end product. Some have gone organic while others are earning extra money through crop or livestock identity. However, they are true to planning before diving into a venture and think one or two products or services ahead of the curve.

Power of Monitoring

Many of the top echelon of producers that are profitable have discovered the power of monitoring. Crop and livestock yields are important, but performance monitoring on marketing, cost management, finances, and labor in a world of bigger balance sheets and income statements is critical. These individuals realize the power of peer trend analysis and will engage other professionals such as farm management instructors, lenders, and consultants for critique in a quest for incremental improvement.



Communication

Another interesting attribute of successful producers is the ability to communicate externally to lenders and internally to partners and family members. Good communication is very apparent amongst the younger generation and a growing number of women and minorities taking the helm of agriculture.

Food trends

Moving on to the big picture, Mike Lee, Co-Founder of Alpha Food Labs, speaks about the future of food. He documents that teenagers are now spending more money on food and food service than they are on clothing. In the U.S., the top five factors for selecting food are taste, cost, nutrition, convenience, and health, respectively. Let's contrast that to the attributes that Europeans value the most: quality, followed by cost, taste, health, and preferences.

Mr. Lee states that “beyond big food” will be a trend in the next five years as many of the younger generation lack trust in big brands. He goes on to further state that a fad usually requires significant behavioral change. Let's contrast that to a trend that will stick as long as it centers on reduced, incremental behavioral change. Speaking of change, change occurs from the bottom up, not top-down. This principal of change is recognized in a past popular business book entitled *Megatrends* by John Naisbitt. The future of food will not be a spectator sport. The formation of tribe buyers who enjoy good experiences with transparency in the process or the marketing of the process will be in alignment between producers and consumers. This relationship will often represent profits.

Non-regulated lenders

A significant trend in agricultural lending is the nonbank or non-regulated lender. Often backed by venture capital, this segment provides bridges in financing, particularly operating funds, when traditional sources are not available. Some producers have experienced favorable results while for others, non-traditional lenders have been a train wreck. Knowing the terms, conditions, interest rates, and payments is critical in any loan transaction whether it is a traditional lender or nontraditional “shadow” lender.

Trade negotiations

Whether it is North America, China, or Europe, trade negotiations appear to be at an impasse. The general consensus amongst trade speakers is that the United States has lost the confidence, influence, and moral authority that used to exist with countries around the globe due to its positioning in global trade. Of course, agriculture is the point dog in negotiations and the industry experiences the outcomes first. Trade disputes cause both financial and psychological impact on businesses and lives touched by agriculture.



Economic resilience

Why has the agriculture industry not experienced the steep downturns that plagued the 1980s? Nathan Kauffman, of the Federal Reserve Bank of Kansas City, indicates numerous variables.

One big factor was the income, liquidity, and wealth build up from 2004 to 2013. This positive economic period created a buffer to offset some of the negative and modest profits in recent years.

Second, low interest rates are a contributing factor. In the 1980s, interest expense was more than 15 percent of revenue. Now, for the most financially leveraged farms with lower interest rates, it is difficult to find more than 10 percent of revenue going towards interest expense.

The U.S. economy has been robust with over 125 months of expansion. This provides ample opportunities for off-farm income sources and a robust consumer for those in value-added or niche markets. Unfortunately, the economic expansion in the general economy has created increased competition for labor and in some cases labor shortages, particularly for the agricultural industry.

Finally, farm land values have not collapsed. Land values are not tied to commodity values in many states. Sales to baby boomer farmers and newfound wealth outside of agriculture have provided stability. People leery of the direction of the stock market are also contributing to the demand side of the land equation. Diversification into hard assets by many investors is a difficult habit to break, which is keeping land values stable, steady, and increasing in some areas of the country.

Final Thoughts

The long plateau of slim margins and extreme volatility has resulted in the old standby of government supports. However, one has to question how long and to what extent government payments will continue.

As we close down the decade, who would have imagined the Impossible Burger and almond, soy, and oat substitutes for milk? What started out as the decade of economic boom is now into a seven-year grinder cycle that is having financial and emotional impacts on producers and the agribusiness community. Some farmers and ranchers are repositioning. Others are regressing and burning through their equity. Still other producers are finding the exit door which creates opportunities for those stepping up to the plate as we approach a new decade.

