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Increasing the Odds of Business Success

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One of the realities for the next few years of this decade will be volatile prices, costs, and, possibly, interest rates. This uncertainty, combined with supply chain disruptions for inputs and the sale of outputs, can blindside business owners. Of course, do not forget mother nature. The power of extreme weather in major producing areas of the globe only creates a case for ambiguity in business decision-making. Couple this with the geopolitical “flavor of the month” and the media’s influence, and one can feel that there will be economic headwinds placing the odds against the agriculture industry.

There is an old saying that economically good times are not as great as they seem, nor are tough times as bad as they seem. Even the dark days are not as dark as one might have predicted. What are some of the key strategies to focus on to move the seemingly insurmountable challenges to the positive side of the profitability ledger?

Business guardrails

Develop a strategy to manage the controllable variables and manage around the uncontrollables. One key to success is to spend 5 to 10 percent of your time in planning to channel your business energy. Production, finance, marketing, risk management, and operational management will be cornerstones of business success during volatile times. Strategies and projections must have wide parameters, or guardrails, for costs, prices, and production expectations. The key will be to execute the plan, monitor the plan, and tweak it as needed as conditions change throughout the year.

Follow the process

A producer who was on a panel at one of this year's lending schools made a candid observation. By following his marketing and risk management plan, he left \$500,000 of potential profits on the table for 2020 and 2021. He was quick to comment that by following a process of marketing and risk management over the past 12 years that he was profitable in most years, which allowed him to acquire land. Remember that 2020 and 2021 were unique



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economic years with pre-inflated expenses, high prices, and government stimulus checks. Identifying where profits are coming from and where dollars are headed will require close attention and focus. Instead of marketing for dollars, producers in this era will be focusing on nickels, dimes, and quarters. In baseball, this is analogous to base hits, rather than shooting for the fences or home runs.

Simplify

More producers are now conducting a resource and economic assessment to determine what enterprises are not making them money and what can be done to simplify the business strategy. For example, one producer gave up 20 percent of his rented land that was marginal and distant from the main operation. Others are conducting enterprise analyses to determine where the biggest bang for the buck can profitably occur. Another operation cut ties with a family member that was bringing negative emotional energy to the business as well as lacking accountability. This brother-sister operation reflected on this change and indicated that they wished they had made this change a number of years ago.

Top half of the balance sheet

For many producers, the majority of net worth is in the bottom half of the balance sheet in terms of land, but the top half of the balance sheet will require more focus. Working capital, or the ability to generate cash without disrupting ongoing operations, is a powerful tool in an economic environment full of ambiguity and volatility. Working capital can counter adversity and position the business to capitalize on opportunities. In some cases, idle cash that is generating little return can be deployed quickly to reduce potential losses or capitalize on discounts and buying opportunities. Maintaining strong levels of working capital can increase the odds of success for your business.

Support network

A strong support network of peers, lenders, crop and livestock specialists, farm management instructors, and professional consultants can provide input to energize one's business or personal strategy. One of the fastest-growing trends and strategies amongst the top agriculture producers is meeting with an advisory group.

Game plan actions

As we transition into a new year, let's take stock of the past year and develop some actions for next year to increase your focus and discipline.



- Write down your short-term goals to be accomplished within one year and longer-term goals with a timeline of three or more years. Include your business, family, and personal goals for a balance between business and life.
- Complete both business and personal year-end balance sheets. Examine whether any increases in net worth are a result of retained profits or an increase in the value of assets from appreciation.
- Develop your business strategy and a projected cash flow with at least three sensitivity tests to provide the guardrails of outcomes that were discussed earlier.
- Complete the business IQ assessment discussed and presented in previous newsletters and articles. One producer indicated that he increased his score by 14 points over four years, which led to an increase in both profits and peace of mind.
- Write a personal thank you note to someone who has assisted you in your business and life journey. This can be an energizing task that will help you remember where you came from!

The aforementioned strategies will not guarantee business success. However, they will place the odds in your favor to position the business and your personal life on the positive side of the ledger over both the short- and long-term.

