

# ***STRAIGHT TALK, STRAIGHT ACTIONS: MANAGING YOUR FARM THROUGH A CHANGING ECONOMY***

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Macro Clinic Video Blog: <http://agstar.com/edge/>

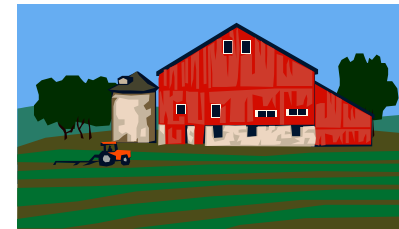
Road Warrior of Agriculture: [www.cornandsoybeandigest.com](http://www.cornandsoybeandigest.com)

Ag Globe Trotter: [www.northwestfcs.com](http://www.northwestfcs.com)

Dave's GPS & Dashboard Indicators: [www.farmermac.com](http://www.farmermac.com)

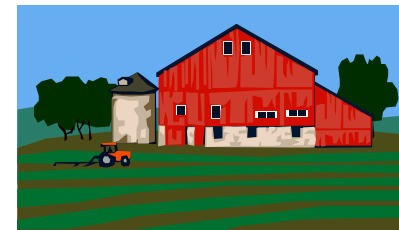
# *Ten Compelling Reasons to Be Optimistic in Agriculture 1*

- 50/70/70 Rule
- 1995-2013- Top 20% livestock/crop producers had 10% returns
- one size does not fit all
- young people, women, and minorities are the “new energy”
- innovation and technology
  - bio, engineering & information



# *Ten Compelling Reasons to Be Optimistic in Agriculture 2*

- talent wars in agriculture and rural America
- 1 in 6 jobs in U.S. are directly or indirectly connected to agriculture
- retail, entrepreneurial segments
- emerging nations, BRICS & KIMT, think globally but act locally
- raising a family- value systems/living expenses



# *Commodity Super Cycle Burnout*

- slowing of emerging nations' economies
- ethanol & biofuel mandate softening
- central bank stimulus
- inefficient infrastructure in emerging nations
- weather – northern southern hemisphere



# ***Grain Industry- “Margin Flipping”***

- easy money has been made
- top flight managers still earn profit
- high overhead/fixed cost structure
- game of chicken with land rents
- duration of cycle
- four strategic factors



# *Managing Thru the Cycles*

<u>Cycle Duration</u>	<u>Credit Issues</u>
<b>One Year Cycle</b>	<b>Repayment Ability</b>
<b>Two to Three Year Cycle</b>	<b>Repayment Ability/Liquidity</b>
<b>Three to Five Year Cycle</b>	<b>Repayment Ability/Liquidity/Equity</b>

# *Livestock Industry “Margin Flipping”*

- strategic resource changes over past decade
- 50 to 65 year olds will not return
- price, early cycle margins
- cost, late cycle margins
- young people migration
- mistakes made in the best of times
- duration of the cycle



# *Global Economy Update*

<u>Country</u>	<u>Code</u>
Europe	Red
China	Yellow
Russia	Red
Japan	Red
Middle East	Red
Argentina	Red
Brazil	Red
Portugal	Red
U.S.	Green

## **Risk Ranking**

- Geopolitical
- Trade tensions
- Natural resource
- Economic reform



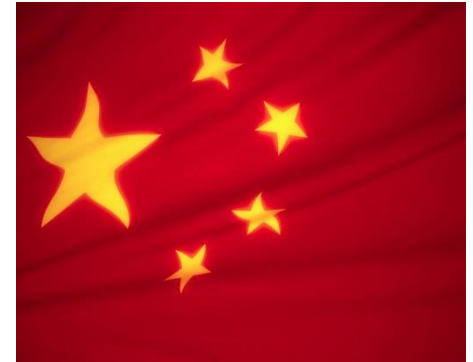
# ***Global Economics: Europe***

- Germany & France
- Southern Europe
- central bank stimulus
- China – largest customer
- code red
- Ukraine – wild card



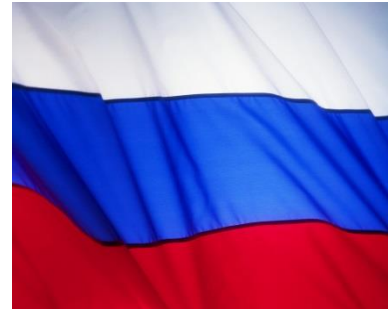
# ***Global Economics: China***

- bifurcated economy
- natural resource issues
  - water, land, air
- trade negotiations
- China exceeds U.S. in purchasing power parity
- shadow banking – wild card



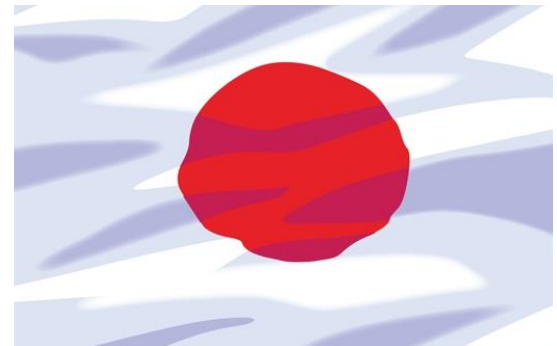
# ***Global Economics: Other***

- Russia
  - oil
  - Mr. Putin
- Brazil
  - slow economic growth
  - socialist agenda
- Argentina
  - leadership issues
  - agricultural infrastructure



# ***Global Economics: Japan***

- third largest economy in the world
- demographic issues
- debt issues
- central bank stimulus
- deflation



# ***U.S. & Global Economy on Steroids***

Indicator	Status
Wealth Effect	<ul style="list-style-type: none"><li>• Stock market</li><li>• Real estate</li></ul>
Dow Jones Average	<ul style="list-style-type: none"><li>• 2009- 6400</li><li>• 2014- 17,823</li></ul>
Japan's Stock Market	<ul style="list-style-type: none"><li>• 2009- 8500</li><li>• 2014- 17,450</li></ul>
Real Estate:  One Dollar Increase In Stock Market One Dollar Increase In Real Estate	<ul style="list-style-type: none"><li>• Florida, Georgia, Arizona, Nevada, &amp; Rural America</li><li>• Spend \$0.04 more</li><li>• Spend \$0.09 more</li></ul>

# ***Federal Reserve's Interest Rate Barometer***

Indicator	Possible Change	Definite Change	Current Status
Unemployment	7.0%	6.5%	5.6%
GDP Growth	2.0%	2.5%	5.0%
Core Inflation	2.0%	2.5%	1.7%
Headline Inflation	4.0%	5.0%	1.3%

## Watch List:

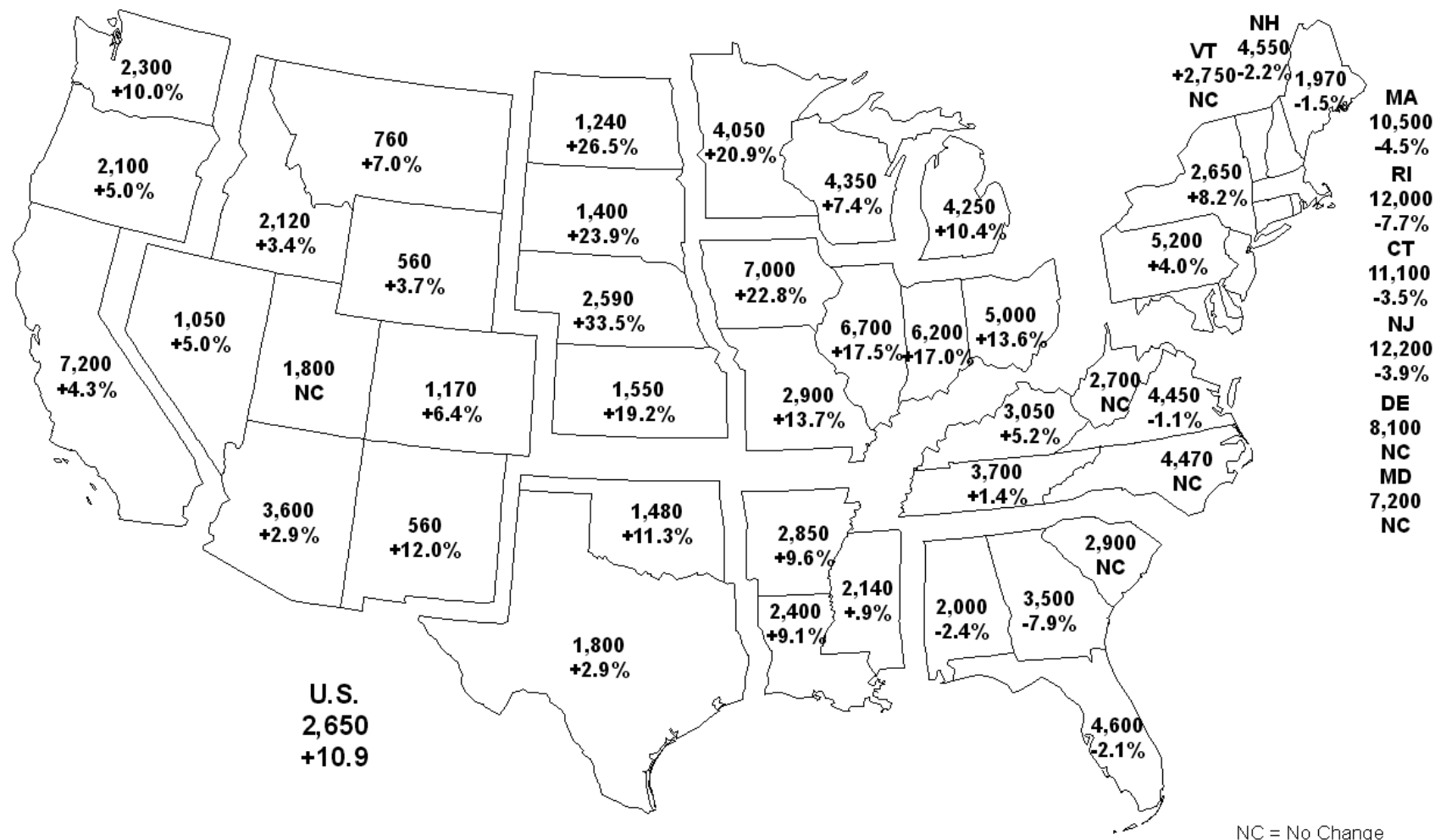
- Dr. Yellen
- FOMC voting
- FOMC minutes
- Rail traffic
- Shoe shiners
- Copper prices
- Overland trucking
- Baltic Sea index

# ***U.S. Economy Update***

<u>Indicator</u>	<u>Code</u>
Employment <ul style="list-style-type: none"><li>• Numbers</li><li>• Wages</li><li>• Participation</li></ul>	Yellow/Red
Factory Utilization	Green
Housing	Yellow
Oil/Interest Rates	Yellow
LEI & PMI	Green

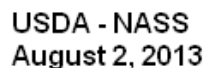
# 2012 Farm Real Estate Value By State

Dollars per Acre and Percent Change from 2011





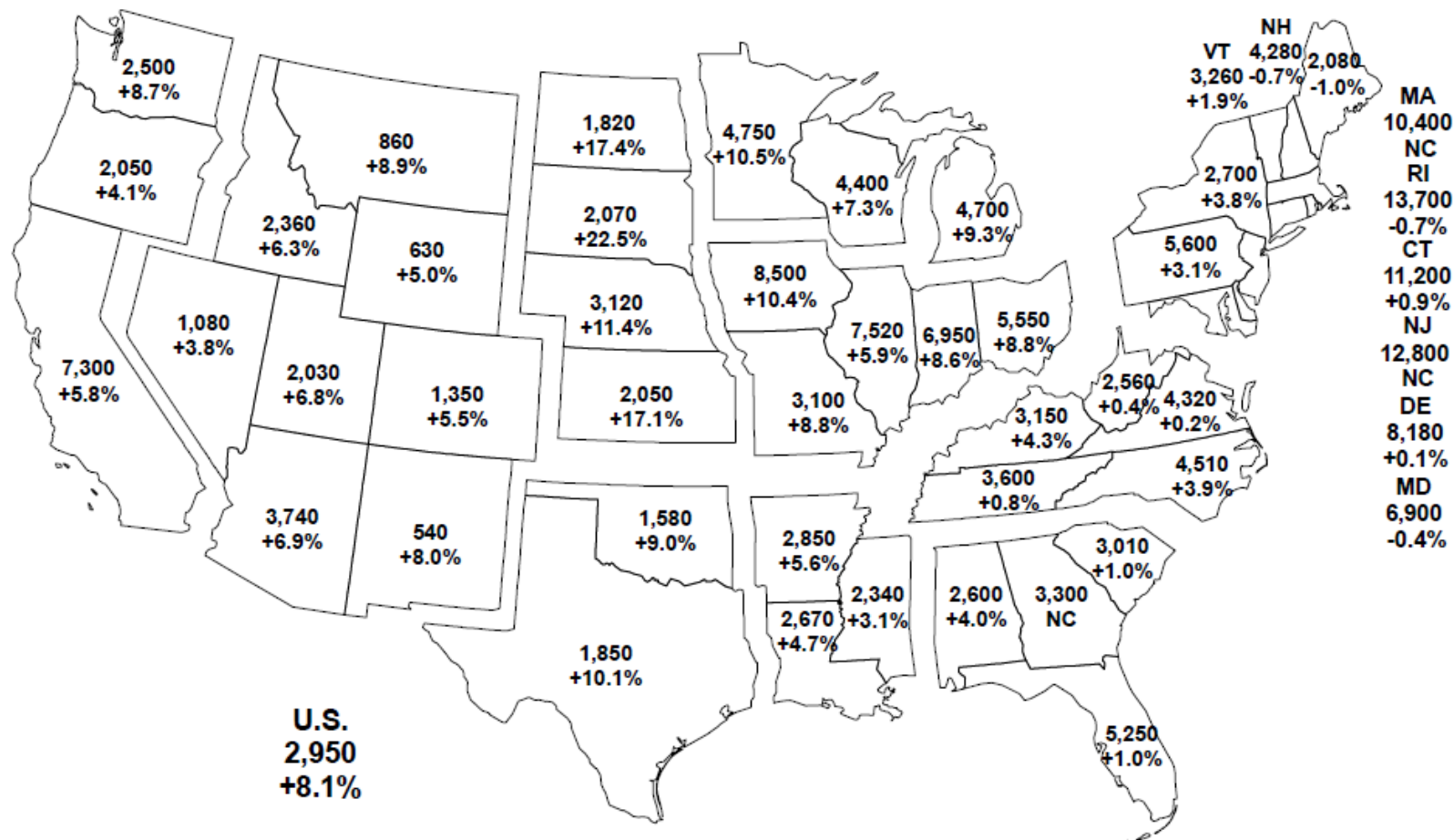
### *Dollars per Acre and Percent Change from 2012*



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# 2014 Farm Real Estate Value By State

Dollars per Acre and Percent Change from 2013



USDA - NASS  
August 1, 2014

NC = No Change

Source: [http://www.nass.usda.gov/Charts\\_and\\_Maps/graphics/farm\\_value\\_map.pdf](http://www.nass.usda.gov/Charts_and_Maps/graphics/farm_value_map.pdf)

# *Producer Views from the Road*

How measurements are used in decision making:

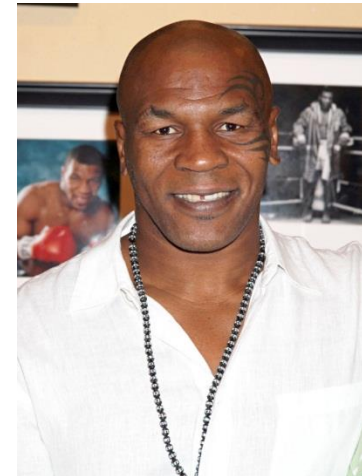


View	Percentage
<ul style="list-style-type: none"><li>• Obsessive about measures; used in planning &amp; decision making</li></ul>	28%
<ul style="list-style-type: none"><li>• Measure many things, but do not use to improve farm or in decision making</li></ul>	54%
<ul style="list-style-type: none"><li>• Track just enough to get by, mainly for taxes &amp; crop yields</li></ul>	18%
Total	100%

# ***Taking the Economic Punch***

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Everyone has a plan 'till they get punched in the mouth. -- Mike Tyson



# ***Taking the Economic Punch***

- Has the producer been profitable?
- economic cycle vs. management
- demonstrated ability to build working capital
- modest living expenses & non farm capital expenses
- burn rate of working capital 2.5 years
- ability to shed marginal assets- land, livestock, machinery, human
- consolidate vs. split lines of credit
- shed “victims” & “know it all’s”
- HUT principle
- communications



# *Producers That Will Thrive*

- strong, productive asset base
- records that talk to the business
- modest living expenses- \$60,000 difference rule
- modest non-farm capital expenses
- working capital- 33% of revenue
- burn rate of working capital above 3.5 years
- know cost of production via enterprise
- strategy/alternatives
- history of handling adversity

# ***Burn Rate - Working Capital***

Current Assets	\$1,000,000
Current Liabilities	<u>\$ 500,000</u>
Net Working Capital	\$ 500,000
Total Revenue	\$2,000,000
Net Income Loss	\$200,000

Net working capital  $\frac{\$500,000}{\$200,000} = 2.5$  years burn rate

Net Income Loss \$200,000

# *Ten Questions of “True Liquidity”*

(1)

- concentration of assets- current
- hollow grain bin- verify & confirm
- forward pricing- marketing/risk, contract, quality
- attitude on risk
- accounts receivable
  - concentration
  - collectable
  - timing
- crops growing in field & livestock in pens
  - insurance/level
  - timing
  - quality



# *Ten Questions of “True Liquidity”*

(2)

- prepaid expenses
  - cash conversion cycle
  - how secure?
  - line of credit
- accounts payable/line of credit
  - less than inventory
  - timing
  - <5% revenue vs. >25% revenue
- cash
  - amount debt service
  - amount compared to major expenses
- deferred tax consequences

# Dashboard Monitor

## Alpha Pup Example

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Business Revenue ( <i>thousands</i> )	\$1,000	\$1,200	\$1,400	\$1,200	\$1,100	\$900
+ Non-Business Revenue	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$1,000	\$1,200	\$1,400	\$1,200	\$1,100	\$900
- Business Expense	\$800	\$900	\$1,000	\$1,000	\$1,000	\$1,000
= Net Income	\$200	\$300	\$400	\$200	\$100	-\$100
+ Depreciation & Interest Paid	\$100	\$200	\$200	\$150	\$100	\$100
Subtotal	\$300	\$500	\$600	\$350	\$200	\$0
- Family Living & Income Taxes	\$100	\$100	\$150	\$150	\$100	\$100
Repayment Capacity	\$200	\$400	\$450	\$200	\$100	-\$100
-Debt Service	\$100	\$200	\$150	\$100	\$100	\$100
Margin	\$100	\$200	\$300	\$100	\$0	-\$200
Coverage Ratio	200%	200%	300%	200%	100%	-100%
Working Capital	\$200	\$300	\$400	\$450	\$450	\$250
Revenue	\$1,000	\$1,200	\$1,400	\$1,200	\$1,100	\$900
WC/Revenue Ratio	20%	25%	29%	38%	41%	28%
Working Capital	\$200	\$300	\$400	\$450	\$450	\$250
Debt Service or (Debt + Loss)	\$100	\$200	\$150	\$100	\$100	\$200
Working Capital Burn Rate (Years)	2.0	1.5	2.7	4.5	4.5	1.3

# Five Step Process to Positive Margins

1. ↑ business revenue
2. ↑ non-business revenue
3. ↓ expenses
4. ↓ family living & taxes
5. debt service restructure



	<u>2015</u>
Business Revenue ( <i>thousands</i> )	\$900 <b>(1)</b>
+ Non-Business Revenue	\$0 <b>(2)</b>
Subtotal	\$900
- Business Expense	\$1,000 <b>(3)</b>
= Net Income	-\$100
+ Deprec. & Int. Paid	\$100
Subtotal	\$0
- Family Living & Income Taxes	\$100 <b>(4)</b>
Repayment Capacity	-\$100
- Debt Service	\$100 <b>(5)</b>
Margin	-\$200
Coverage Ratio	-100%

# Big Data, Small Data & Useful Information

## Starting Five Dashboards

<u>Balance Sheet</u>	<u>Income Statement</u>	<u>Cash Flow</u>
Assets 3M	Business Revenue 2M	Cash Income 2.1M
Liabilities 1M	Variable Expenses 1M	Non Farm Income 1T
Net Worth 2M	Fixed Expenses 6T	Business/Living Expenses 1.6T
Current Assets 5T	Net Income 4T	Debt Service 4T
Current Liabilities 2T	Income Margin 20%	Net Cash Flow 2T

# *Dashboard Key Financial Ratios*

<u>Ratio</u>	<u>Percent</u>
Percent Equity	66%
Working Capital/Revenue	15%
Profit Margin	20%
ROA	13%
Coverage	150%
Total Debt/EBITDA	1.25 to 1

# ***Business Planning Resiliency***

- professional records system
  - “talk to the business”
- working capital
  - 33% of revenue
- working capital – burn rate
  - 3.5 years
- family living budget
  - high/low difference of \$60,000
- credit score/report
  - 700 rule
  - steps to improve

# ***Business Planning Agility***

- goal setting
  - family, business, & personal
- people plan
  - six steps
- profitable
  - interest rate
  - inflation rate
- team of advisors
  - lenders, mentors, & peers
- education
  - 3-5 venues
  - networking

# ***Business Equation for Success***

$$P=O+C+L+M^2$$

- P=people, profits, & plans
- O=overhead cost control
- C=costs- know thy cost
- L=liquidity-cash is king
- $M^2$ =marketing & management = margin





# ***Dave's Top Ten Questions & Advice From the Road***

- one piece of advice for a young business person
- tip for both generations in transition
- What is the best business turnaround tool?
- 40-20-40 Rule of people
- What is the top business tool that the Creamery uses?
- Why do you recommend certain levels of cash in a business?
- What is the 96-4-50 rule?
- agriculture is a good field of study
- What should young people study?
- What are the best reads?