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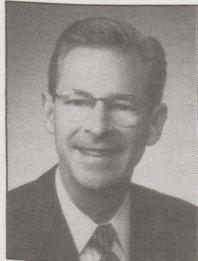
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Farm Management Skills Should Not Be Overlooked

by Randy Allen



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We are living in modern times. Not only do we think this way, the thought is constantly reinforced by the media. It's funny, I can still remember my mother saying the same thing when I was a small child. As a matter of fact, it was only a little over three hundred years ago that the majority of the people thought the world was flat. It was 27 years ago that we put a man on the moon. However in this day and age, our technology has advanced and superseded our own creativity and maybe even its usefulness.

We live in a time when men and women take regular shuttles to space, access the Berlin Library from Texas via the internet, and watch the news as it happens

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beamed by satellite. However, in many ways U.S. agriculture is still light years behind. For the most part, we can generally state that agricultural lenders are still filling out financial statements, calculating cash flow, and still taking much of the management responsibility for many of their farm customers. As the producer climbs into his \$150,000 combine with climate control, adjusts the bass on the CD player, and makes a call on his cellular phone, the odds are four to one that he doesn't know his cost of operating. Technology does not ensure profitability. It never has and it never will.

The frightening thing about agriculture is that on one end it is operating at light speed. Genetics is just one example of the kind of breakthrough that is enhancing how we grow and consume food. On the other hand, farm management skills have increased at a snail's pace. What agriculture continues to confuse is that modern technology is only designed to assist producers and lenders in making better decisions, but it doesn't make decisions for

them. Decisions are still made by people. Many times and in many cases, farm financial decisions are left for tomorrow's work.

On-time Management

Unfortunately, timeliness is a big part of making good decisions and the *tomorrow* concept just doesn't work. The ultimate need today in agriculture is not a new machine or better weed control, but what I call, **on-time management**. The producer's day is fragmented to say the least. The only routine on some farms is simply putting out fires – the quicker the better. A normal day on a typical farm usually creates many fires – a sow is out, there's a flat tire on the truck, the gate has come off of its hinges, a combine belt breaks, running in to town, mud, the vet will be an hour late, the propane company needs to be called, short three bags of seed to being completely planted, etc.

Professional business people have a different kind of routine. In at eight, and home by six. Business people are usually found in one location – the office. If they need to travel, they schedule their own itinerary – they have a plan. But in production agriculture, the manager is usually tossed to and fro by his unusual environment and career.

Nearly all producers admit they do not usually have enough time to monitor their financial situation or the marketplace. Many producers also admit their financial management skills are not as good as they would like them to be. The bottom line is that many producers do not have the time or talent to manage the money they have borrowed. This should be alarming to agricultural lenders!

A recent study by Iowa State University found the No. 1 reason for stressed borrowers is that the farm is too small. This makes sense because so many farm operations have not grown to the kind of volume production agriculture demands in today's markets. However, the second most common reason for stressed borrowers is the very concern of this article – poor management skills.

In a time of modern technology, miraculous discovery, and high education, somehow farm agriculture has been slow (at best) to attain the necessary skills to manage business. There are a few reasons for this that need to be pointed out:

1. **Lenders demand financial statements from producers.** Farmers see this statement as one more thing to do, it's for the bank, just another form to fill out. This, in and of itself, is tragic. Farmers have been taught that a financial statement is required by law and that it should be in on time, but we have failed to teach them *why* they need to fill it out, *why* it's important for them to understand it, and *why* it is an integral part of managing their farm business. If producers better understood this basic element of business, there would be no doubt that better decisions could be made and exercised.

2. **Producers need to calculate their enterprise break evens regularly.** Expenses, prices, and yields all change – on a daily basis. Eighty-three percent of the nation's farmers still have little or no idea what their variable and fixed expenses total as compared to what the market environment is offering for their commodities. One projection or break even analysis is simply not enough in agriculture's ever changing world. I would suggest that this process should be done prior to producing the commodity, during the production season, and an actual break even at harvest or delivery (in the case of livestock). Calculating the break even three times should be the minimum. A sophisticated producer may calculate his break even each day if the operation is set up on a computer. The current market price minus the break even determines profit or loss. Any other concept or practice ensures speculation.

3. **Profit goals and target prices need to be determined for the future.** Of course, this is the marketing plan. Ninety-nine percent of the nation's producers do not have one. Thus, the lender and the farmer are both out on a limb if the producer manages from hunches, emotions, and high-spirited information that flows through his senses. The lender and farmer should know at what levels of price the

producer is willing to contract his commodity. The producer should have his and/or his family's personal goals and objectives written down as well; a road map so that the lender can visualize the farming operation's direction. The lender should feel secure about the client's marketing process and its reflection on his loan portfolio. Instead, it's still common for producers to hold inventory off the market, waiting for that Las Vegas roll and/or only selling inventory when he needs money. This is neither responsible loaning or managing for the lender.

4. Education is a must for farm producers in light of the seven year farm bill. In the past, producers have had a rough time profiting in thin margins with the government program. What happens when the safety net is completely gone for the bank and the producer? The major commodity exchanges were set up in the 1800s for this very purpose – to provide reasonable price insurance to producers. Yet, very few producers understand or use the futures and options contracts to this day. When marketing is 50% of their business and determines their final paycheck, it's very unfortunate that producers do not have the education to perform well in the markets. As I have always said, "the producer's hedge is the bank's hedge." Ask yourself, "How many hours of quality education have your producer clients engaged in recently? The past year? The past three years? Your answers will be frightening.

5. Farmers need to re-evaluate their daily time priorities and management skills. Farming is still a way of life. However, the farm or ranch needs to be operated as a business *first*. This enables the producer and family to continue to enjoy their "way of life." It has been said before that if the farmer would spend a little more time in the office, rather than out in the field, he might not miss profitable opportunities as often. Every producer client at your institution should want to learn and grow. If the producer is obstinate or refuses to improve his management skills, it's a sure sign the producer is or will become a problem borrower. And

it's certainly time to evaluate this now – seven years from now may be too late.

For this very reason, RWA has developed a new component for lenders called ***Farm Management Standards***, much like the task force that developed the farm financial standards. It's now time to educate producers should the bank desire to seriously remain in agriculture. Of course, this should be the producer's responsibility, but where do they go to get it? This puts the bank in a constructive leadership role. If the bank markets a farm/ranch education package, it very well could enhance the bank's ag portfolio from potential borrowers too.

Imagine a producer fulfilling and understanding his financial situation, having a marketing plan, and approaching his bank appointment as a professional business person – much like your commercial accounts. As mentioned before, this effect will take education, but there is more. The producer may need to restructure his daily routine – thereby occupying his office for a few hours each day.

The farm family may need to re-delegate certain responsibilities. The farm wife may become the office manager and the producer may become the production manager. The farm may need a secretary to work part time. A computer may need to be purchased or the dust blown off the old one. An on-line service or a fax machine may be a vital time-saving device. Management ideas are endless.

If agriculture is to move to a healthier financial environment, it's not commodity prices that need to improve, but the financial management skills of the producer. The dark depressionary days of agricultural law have changed. Policy will indeed change the face of agriculture over the next few years. Remember, those who remain in agriculture today have only survived the past, which has no implication on the future. For many producers and lenders, it's time to really strap in. A dwindling farmer population will support and raise the level of ag competition. Within competition comes opportunity – or for many, a slow financial death. ▲