

The Business Coach



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BMP's of Going from Good to Great in Agriculture

GOOD

“Hot Shots” 20-30%

- 6% annual growth in net income
- know cost of production
- good soils, water, infrastructure, but lack of community support
- debt/equity greater than 1:1
- rapid expansion, low equity or working capital reserves (debt/equity >2:1, working capital <10%)
- high maintenance lifestyle w/ killer toys
- business plan but no implementation
- lack of system of metrics
- communication & labor management problems
- imbalance of business & lifestyle

GREAT

“Achievers” 20%

- 6% annual growth in net income
- ROA >6%
- excellent soils, water, markets, infrastructure, services & community support
- know cost of production
- manages at extremes
- $P=O+C+L+M^2$
- uses transition management team
- strong alliances of business associations, balance of business & lifestyle
- passes the three supervisor rule
- written business plan with metrics in strategic areas

POOR

“Miners & Coasters” 20-30%

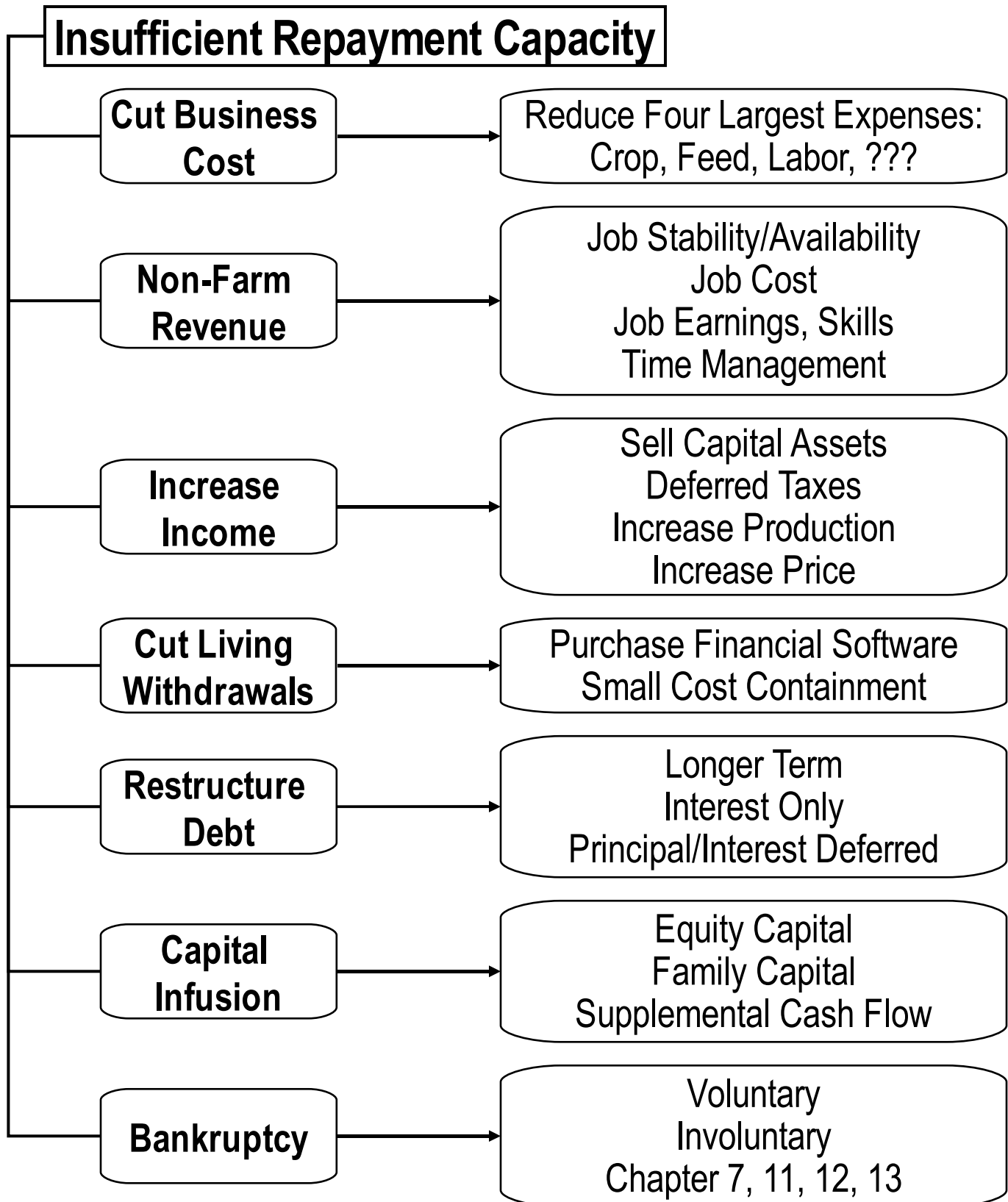
- poor to fair soils, water & infrastructure
- refinances feed bill & open accounts every 1-3 years
- time hog
- helter-skelter management plan
- pure production manager
- negative growth in net income 8 of 10 years
- sporadic labor system
- debt/equity ratio >1:1
- day-to-day manager
- plays the blame game

FAIR

“Strugglers” 40%

- 0-3% annual growth in net income
- Refinance feed bill & open accounts every 3-5 years
- Debt/equity ratio <1:1
- Low maintenance lifestyle
- Fair soils, water, infrastructure in the boondocks or near a growth area
- Focus on production revenue rather than margin
- Does not know cost of production
- Next generation are ambitious or slackers, but lack environment for motivation
- Have a business plan, but not written
- Good solid community citizen

Trouble Shooting Matrix



Selected BMPs & Financial Performance

<u>Best Management Practice</u>	ROA (%)	VFP (millions)	D/A (%)
Accounting entity			
Enterprise accounting	7.3	6.2	n/a
Whole farm	5.8	3.2	n/a
Do not use	5.3	<1.0	n/a
Accounting procedures			
Both cash & accrual	5.8	n/a	n/a
Accrual only	5.7	n/a	n/a
Cash only	5.2	n/a	n/a
Use of ratios for performance measurement			
Yes	6.0	4.8	36
No	5.1	3.6	31
Level of records			
CPA	6.5	n/a	n/a
Accountant	4.9	n/a	n/a
Bookkeeper	3.7	n/a	n/a
No accountant	3.1	n/a	n/a
Outside accountants & advisory boards			
Yes	5.9	5.5	48
No	4.6	3.9	32

Selected BMPs & Financial Performance

<u>Best Management Practice</u>	ROA (%)	VFP (millions)	D/A (%)
Strategic business plan			
Yes	5.8	5.7	37
No	2.7	2.2	27
Transition management plan			
Yes	5.8	5.2	35
No	5.1	1.9	33
Contract marketing			
Long term	4.4	3.8	41
Short term	5.7	4.5	34
Technology			
Innovator/early adopter	6.6	6.7	31
Only adopt proven technology	4.0	1.2	38
Traceback system			
Yes	5.9	6.5	43
No	5.6	3.9	32
Formal meetings			
Yes	5.8	5.5	35
No	4.9	4.7	31

Summary Statistics

	Minnesota	Northwest
Financial Variable	Average	Average
Revenue	\$733,311	\$4,183,162
Net Income	\$93,140	\$528,157
ROA	7%	6%
Debt to Asset Ratio	57%	34%
Surveys completed	163	182

Adoption Rate of Selected Best Management Practices

	Northwest	Minnesota
Have developed, implemented and currently maintain a formal written business plan	15%	14%
Conduct formal meetings annually	85%	79%
Have a transition management plan in place in the event of death of the original owners	48%	31%
Have internal accounting experts	83%	65%
Use only cash accounting	53%	39%
Prepare an annual operating budget	79%	78%
Pursue alliances	52%	54%
Have a relationship-based customer focus	57%	37%
Do not adopt new technology or adopt technology later than most	8%	17%
Separate business and family issues	67%	65%
Have specific education, skill and work requirements that next generation partners must meet	27%	12%

Accounting Expertise

Financial Variable	Accountant or CPA	Bookkeeper
ROA	5.95	4.80
Net Income	\$630,100	\$478,688
Revenue	\$5,702,500	\$3,699,313
Debt to Asset Ratio	38%	31%

- **Data for Northwest only**
- **No differences in Minnesota data because of farm management instructors**

Business Planning

Financial Variable	Business Plan		No Business Plan	
	MN	NW	MN	NW
ROA	6.75	6.34	7.76	5.61
Net Income	\$93,093	\$766,778	\$92,878	\$505,193
Revenue	\$973,388	\$5,719,524	\$613,682	\$4,122,027
Debt to Asset Ratio	68%	37%	48%	32%

- **As farms become bigger and/or more leveraged, more business planning is necessary**

Growth Philosophy

Financial Variable	Deliberate & objective		Shoot From the Hip	
	MN	NW	MN	NW
ROA	6.59	6.20	7.51	5.01
Net Income	\$105,545	\$718,232	\$89,750	\$433,214
Revenue	\$1,035,181	\$5,253,285	\$653,110	\$3,723,892
Debt to Asset Ratio	65%	33%	54%	34%

- **Objective growth is critical the bigger you become in Northwest**
 - ✓ (25% more profitable)
- **Objective growth in Minnesota was critical as the producer incurred more debt**

Transition Planning & Management Practices

Financial Variable	Transition agreement in place & agreed upon	Transition plan has not been discussed or developed
ROA	8.82	6.70
Net Income	\$134,812	\$75,334
Revenue	\$924,291	\$650,366
Debt to Asset Ratio	56%	57%

Technology Adoption

Financial Variable	Early or after proven	Majority, laggards & innovators
ROA	8.03	6.56
<i>Northwest</i>	<i>5.53</i>	<i>4.93</i>
Net Income	\$110,317	\$67,306
Revenue	\$860,269	\$561,225
Debt to Asset Ratio	54%	65%

- **Minnesota: innovators are least profitable (4.71 ROA)**
- **Northwest: innovators are most profitable (6.61 ROA)**

Communications, Business & Family Issues

Financial Variable	Separate business & family issues	Conflict & business/family issues affect effectiveness
ROA	7.90	6.55
Net Income	\$97,171	\$88,296
Revenue	\$720,740	\$769,222
Debt to Asset Ratio	58%	53%

- **Producers who communicate are 21% more profitable**
- **Northwest producers who separated business & family were 63% larger & had 22 percent more net income.**

Philosophy on Estate Planning

Financial Variable	Ignore estate planning	Estate planning for protection & control of wealth
ROA	5.01	7.55
Net Income	\$54,929	\$96,342
Revenue	\$600,568	\$739,805
Debt to Asset Ratio	77%	55%

Other Important Perspectives

- **Producers that did budgeting carried more debt**
 - ✓ 62% D/A ratio vs. 38% D/A ratio
 - ✓ No difference in profits or net income
- **More Northwest farms had transition plans in place**
- **Strategic planning was more prevalent amongst Northwest farms**
- **Northwest farms were more aggressive at adopting technology and networking**
- **Farms that carried more debt had higher degrees of business acumen**
- **24% of Minnesota farms had no one to take over the operation**
- **Higher level of formal statements and ratio analysis sophistication with Minnesota than Northwest**
- **Farms that tracked cost by enterprise were most profitable (7.4% ROA) compared to those that did not (5.2% ROA)**
 - ✓ Much higher percentage in Minnesota
- **Farms in Minnesota that pursued relationship marketing vs. transactional were one percent less profitable (7.6% vs. 6.6% ROA)**
- **GPS was more profitable than GMO and traceback.**