

# ***BUSINESS & FINANCIAL IQ IN ROLLER COASTER ECONOMICS***

**Dr. David M. Kohl**

Professor Emeritus, Agricultural and Applied Economics  
Member of Academic Hall of Fame, College of Agriculture & Life Sciences  
Virginia Tech, Blacksburg, VA



(540) 961-2094 (Alicia Morris) | (540) 719-0752 (Angela Meadows) | [sullylab@vt.edu](mailto:sullylab@vt.edu)

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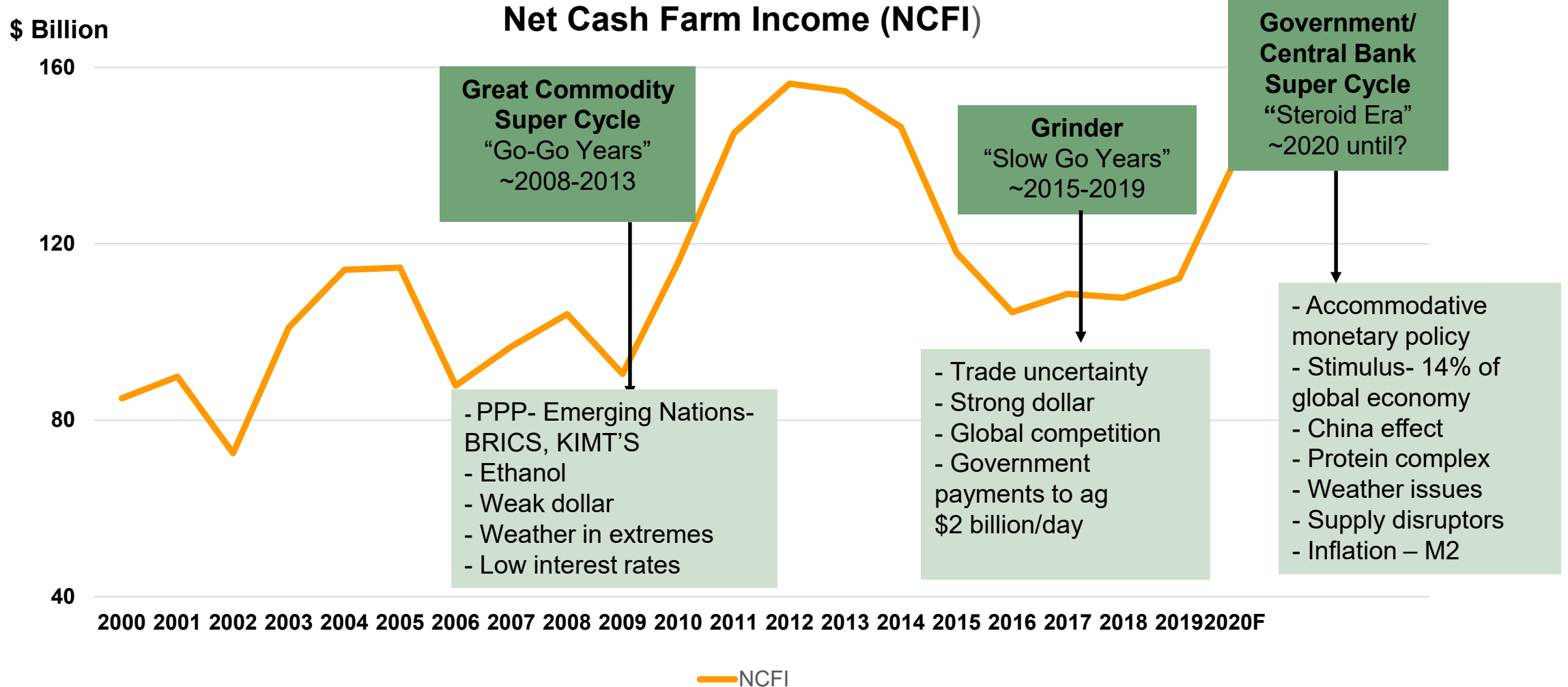
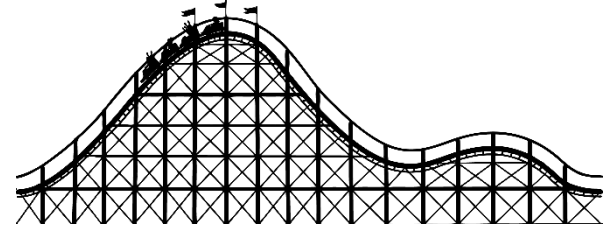
Macro Clinic Video Blog: [www.compeer.com/education](http://www.compeer.com/education)

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

Ag Globe Trotter: <https://www.northwestfcs.com/ag-industries/economic-updates/ag-economy-articles>

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

# Roller Coaster Economics



**Source:** USDA, ERS, Farm Income & Wealth Statistics, as of 2/5/21.  
Values are adjusted for inflation using the GDP chain-type price index, 2021=100

# Government Payments as Percent of Net Farm Income

- \$2 billion government payments per day in 2020 to agriculture globally
- government payments as a percent of net income

<u>Year</u>	<u>Percent</u>
2016	21%
2017	16%
2018	17%
2019	26%
2020	61%
2021 Projected	23%

**Source:** USDA, ERS, Farm Income and Wealth Statistics



# *Permanent Inflation*

- M2 velocity of money
- regional & economic segments of inflation
- spot shortages created by black swans
- U.S. & worldwide consumer confidence
- central banks' interest rate policy
- government budgets & tax strategies
- wages, automation & unemployment



# *The Fault Lines in the Agricultural Economy (1)*

- inflation of operating expenses
  - 2019-20 cost, 2021 margins strong
  - 2021-22 cost, 2022 margin compression
- greed vs. discipline/marketing & risk management
- family living costs creep
- cash flows & profit post stimulus
  - financial sensitivity test- 25-50-75 rule
- supply & marketing chain distribution issues



# *The Fault Lines in the Agricultural Economy (2)*

- oil & energy complex transformation
- taxes income/wealth
- cash rents & land global competitiveness
- complacent management
  - producers
  - lenders
- weather
  - global
  - extremes



# *Long Term Fault Lines in the Agricultural Economy*

- China rises as a global competition
- increased competition from eastern Europe/South America
- alternative meat & dairy products, demographics
- transformation of energy, carbon movement, soil & water health
- bio, grid, cyber, black swan shocks, other

# ***Mega Trends - Positive Trends for Young Farmers***

- local niche markets have increased in demand
- rural renaissance- broadband internet is critical
- more women, minorities, boomerangers, veterans, first responders
- new ideas
- accelerated transition- older, younger generation
- 21% of farmers have no next generation





# *Mega Trends- Positives for Agriculture*

- importance of a diversified safe food, fiber & fuel source- basics of life
- reassurance of transparency in where food is produced, processed & distributed
- healthy soil & water
  - plants, humans, animals & environment
- niche markets, U.S. & globally
- repositioning of the image of agriculture



# *Future Business Models*

- family business
  - cousins partnering with cousins
  - non-family members
  - separate enterprises/use common assets
- agri-entrepreneur
  - multi-tasker
  - gigs
  - diversified sources of income
- boomeranger professional
  - “outside the box” mindset
  - new skill sets
- women, minorities, veterans
  - demographics of FFA , 4-H, MANRRS
- vertical & urban farming

## *Management Mindsets for the 2020s*



# *Aligning with Mindsets*

## **Producer A**

- How do I compare?
- What are others doing?
- think longer term & what is on the horizon

## **Producer B**

- Will a lender finance me?
- Will I survive for another year?
- often a know it all or victim

## **School vs. Real World Perspective:**

In school, you get the lesson first, then the test.

In the real world, you get the test first, then the lesson.

# Management Assessment

## Greens

- adaptive to a situation- proactive
- 5% rule
- get efficient before getting bigger
- sweat the small stuff
- plan, strategize, execute & monitor
- process oriented
- advisory teams

## Yellows

- success because of equity & history vs. profitability & cash flow
- preparing the next generation
- bigger before better, examine human horse power
- magic bullet- the next big thing

## Reds

- waiting for prices & markets to save them
- excuse game, not my fault
- lose money, equity keeps them going
- 80/20 rule is alive & well

# Business IQ: Management Factors

## Critical Questions for Crucial Conversations

Farmer Checklist	Your Score	Green (3 points or 4*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production		Written	In head	No idea
2. Knows cost of production by enterprise		Written*	In head	No idea
3. Goals - business, family, & personal		Written*	In head	No idea
4. Record keeping system		Accrual	Schedule F (one & done)	No idea
5. Projected cash flow		Written*	In head	No idea
6. Financial sensitivity analysis		Written*	In head	No idea
7. Understand financial ratios, break evens		Written*	In head	No idea
8. Work with advisory team and lender		Yes*	Sometimes	Never
9. Marketing plan written and executed		Yes	Sometimes	Never
10. Risk management plan executed		Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget		Yes*	Sometimes	Non existent
12. Written plan for improvement executed & strong people management		Yes*	Sometimes	Non existent
13. Transition plan/Business Owner plan		Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses		Yes*	Sometimes	Never attend
15. Attitude		Proactive	Reactive	Indifferent

### \*Extra Points:

- **Progressive Business** may receive 4 points for #2,6,7,8,14  
- **Struggling Business Attempting Turnaround** may receive 4 points for #3,5,8,11,12  
(See pg. 2 for Progressive and Attempting Turnaround)

### Score

### Overall Analysis

35-50

Strong management rating, strong potential for resiliency & agility

24-34

Moderate management rating, potential issues in resiliency & agility

<24

Weak management rating, potential major issues in resiliency & agility

# *How Can Team Members Use Business IQ as a Tool for Producers?*

- screener for attitude to improve
- each family member, business partner, spouse complete the Business IQ separately
- assists in prioritizing improvements
- communication tool- internal and external to team of advisors
- customer develops plan for improvement to improve or buy in
- objective way to measure management
- monitoring tool, year over year

## *Fueling the Phoenix- The Seven “P’s”*

1. Planning
2. Projections
3. Pivot
4. Profitability
5. Pathway
6. People
7. Prioritization

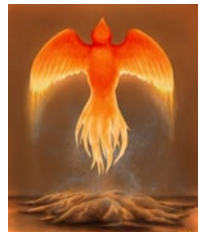




# ***Fueling the Phoenix – The Seven “P’s”***

## ***1. Planning (5 to 10% Rule)***

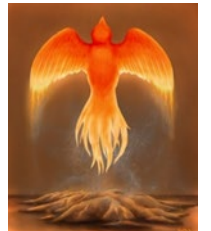
- plan, strategize, execute, & monitor
- HUT principle
- speed kills- more zeros/commas on financial statements
- SWOT analysis
  - industry
  - business
  - enterprise
- team of advisors to energize the process
- in person, on-line, & hybrid approaches



# *Fueling the Phoenix – The Seven “P’s”*

## *2. Projections (Visualization & Outcomes)*

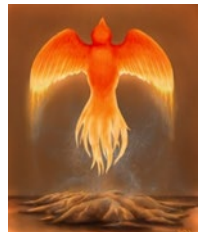
- cash flow, 80% of the business plan
- production, marketing, finance, & operational management
- possible outcomes
  - production
  - price
  - cost
- overestimate money & time by 25%
- best, average, & worst case



# *Fueling the Phoenix – The Seven “P’s”*

## *3. Pivot (Working Capital is Queen)*

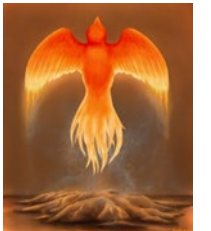
- working capital & quickness to cash
- working capital, debt service (principal & interest) >5 to 1
- working capital/expenses >25%
  - >30% of your working capital - able to be converted to cash in 90 days
- four to eight months of household expenses in cash
- pivot: block adversity/capitalize on opportunity



# ***Fueling the Phoenix – The Seven “P’s”***

## ***4. Profitability (Oxygen of the Business)***

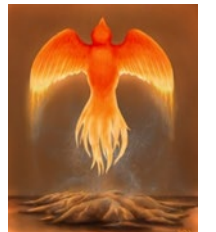
- 60-30-10 profit plan
- term debt to EBITDA <5 to 1
- operating expenses (excluding interest & depreciation) to revenue < 75%
- pay taxes
- profits: balance the head & heart



# *Fueling the Phoenix – The Seven “P’s”*

## *5. Pathway (The Journey)*

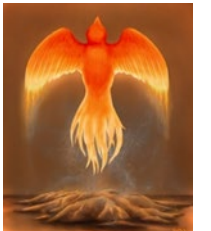
- wonder, blunder, thunder, & under phases
- 1% asset or equity base invested in transition planning
- 50% retirement income for senior generation
- personal budget & business budgets
- invest 5% of income outside the business



# *Fueling the Phoenix – The Seven “P’s”*

## *6. People (Independent Vs. Interdependent)*

- productive people is the difference between good and great
- ***Good to Great: Why Some Companies Make the Leap... and Others Don't*** by Jim Collins
- six perspectives of the bus
- accountability: leadership, frontline people, family members, advisors
- role players win championships



# *Fueling the Phoenix – The Seven “P’s”*

## *7. Prioritization (Lessons Learned)*

- overscheduled- work & life balance
- goal setting- six degrees
- 2,500 - 500 hour rule
- MEDS for life
- DAIRY for life



# *Question of the Year for Producers*

## *I am very profitable, what should I do?*

### Progression Analysis

- How were the profits generated?
  - government payments
  - disciplined marketing, risk management plan
  - speculation
  - a combination of low input costs & high prices
  - other
- Build working capital & liquidity
  - pay income taxes
  - reduce lines of credit
  - pay off payables
- How were the profits distributed?
  - short term, capital investments
  - long term, capital investments
  - family living & personal expenses
  - other

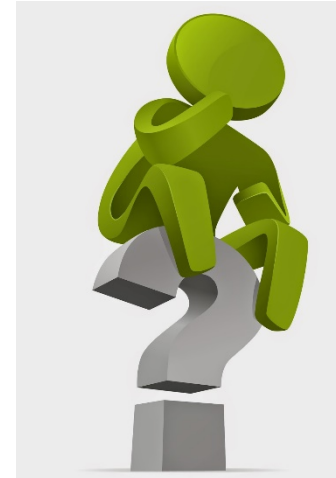




# *Question of the Year for Producers*

## *Should I buy land?*

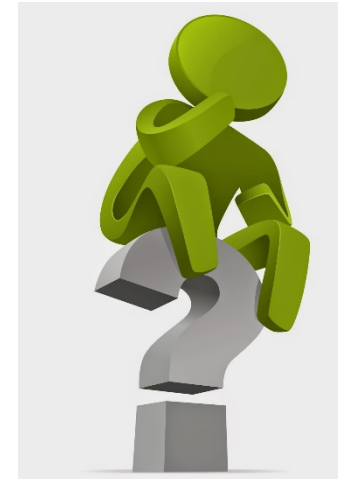
- goals
  - short run
  - long run
- working capital to debt service (principal & interest)
  - $>5$  to 1
- modest family living
- 79/88 rule of stability/appreciation



# *Question of the Year for Producers*

*What factors should I consider when transitioning the family business?*

- Is the business profitable?
  - accrued analysis
- resource assessment
- roles of owners & managers
- other siblings
- 50% rule of retiring generation
- goals of stakeholders
- filling out the Business IQ



# *Action Plan for Young Producers*

- goals
  - short run
  - long run
- balance sheet
- credit history
- projected cash flow
- business IQ



## *Q&A With Dr. David Kohl*

