

7 Questions to Consider

Farmers and ranchers should ask themselves these seven questions to ensure they are achieving business efficiency and profitability in their operation.

by Kindra Gordon

Continuously asking questions to evaluate the efficiency and profitability of a farm or ranch business is a necessity in today's volatile ag market. That's the advice of South Dakota State University Extension business management field specialist Heather Gessner.

She suggests that before ag producers can make effective decisions, they must first review their records and ask themselves several finance-related questions.

Specifically, Gessner advises that producers need to be able to talk to lenders about their business finances, not just the production side. To this, Gessner likes to challenge producers by asking them to review seven essential questions.

1 Do you operate like a business?

Specifically, Gessner says producers should be able to:

- a. Present their balance sheet, expected cash flow and profit/loss statement to their banker.
- b. Answer questions about their working capital availability, past numbers and future numbers.
- c. Show trends in return on investment (ROA), debt coverage, operating expense ratios.

Gessner notes with many of these financial statements, producers are putting themselves in a more informed place to make decisions. As an example, she says, "If you know your breakeven cost, you may not always make money, but you can make decisions to ensure less loss."

2 Have you reviewed machinery costs?

Gessner notes that finding ways to decrease machinery and equipment costs per acre can help increase revenue. As examples, she suggests evaluating custom rates or outsourcing practices. Producers could even consider joint ownership of larger equipment with a neighbor. To these ideas, Gessner says, "Every once in a while, producers need to think about giving up some independence if it helps curb costs."

3 Can land costs be lowered?

Gessner suggests producers inquire if rental agreements might be renegotiated for more favorable terms based on a history of good management practices or to come in line with changing industry prices. Additionally, she says long term notes might be looked at for refinancing while interest rates remain low.

4 What is your family living expense?

Gessner advocates tracking household living expenses in a checking account separate from the business and evaluating costs frequently. She advises involving everyone in the family to develop a realistic family budget that can be adhered to. Gessner says for those who have not previously tracked annual family living expenses, a rule of thumb to start budgeting at is \$20,000 per adult and \$10,000 per child.

5 Can production be improved to boost revenue?

Gessner notes that increasing weaning percentage and/or increasing the numbers of pounds sold may provide an opportunity to boost income. But, she points out that producers must first know what their current percentages and pounds are. She also advises that producers must consider how making one change, might affect the rest of the operation.

6 Has the operation's marketing plan been reviewed?

With regard to marketing, Gessner suggests pondering: Do you need to make a change from what you've always done? She says a second concept to consider may be opportunities to add value. Possibilities include backgrounding, health protocols or marketing via video or branded beef programs.

7 Could you provide custom services?

To add revenue, Gessner says a producer might consider using his equipment to help a neighbor put up hay, or custom feeds calves or heifers for someone. For families who try to increase income by having one family member take a job off-the-farm, Gessner stresses that the costs must also be considered. "If town is 70 miles away, is it worth it? What does it cost you?" she questions.

As any changes for your farm or ranch business are evaluated, Gessner emphasizes taking time to review and discuss your strategies with your family and your lender. She suggests thinking of your lender as an advisor.

She adds, "With any changes that are made to the operation, the additional expenses must be evaluated and monitored to ensure that the change isn't costing more than the revenue it's generating." **HW**

Now's a good time to get started in ag

One big question young producers may have is: Should I pursue a future in production agriculture?

Revered ag economist David Kohl has bullish optimism for young producers, saying, "I think it's a better time to get into farming and ranching today than it was five years ago."

Kohl, who is a professor emeritus of agricultural and applied economics from Virginia Tech where he taught for 25 years, travels the country — and internationally — sharing business management advice with producers across all sectors of agriculture.

So why does Kohl suggest now is a good time to get into farming or ranching — or expand an existing operation? He points to one big statistic — 60% of U.S. land ownership will turnover by the year 2030 because of the aging demographic of current landowners. Additionally, he notes that 20% of family farms have no next generation returning to the operation, which spells opportunity for those looking to get into the business.

Other favorable factors

Kohl also cites the current low interest rates and the drop in machinery and equipment values as two core reasons providing opportunities to get into ag. He notes that some machinery values are down 20-40%. Likewise, he says today many producers are finding ways to farm and ranch with less machinery, which decreases operating expenses.

Kohl credits new producers with being savvy about collaborating on assets and talent sharing, which also provide a means for getting into the business with less expense.

For new and expanding producers, Kohl emphasizes that in today's marketplace there are opportunities for all sizes of operations. "There is no one size fits all. You don't have to have 300 cows or a certain number of acres," Kohl says. He notes that the younger generation is finding creative ways to market, multi-task and create various revenue streams.

Kohl also points to niche markets for food and ag products as opportunities for producers. He sees revenue opportunities in agriculture by attracting visitors from tourism or selling products online.

Lastly, Kohl says one of the best reasons to get into farming and ranching is that it is still one of the best livelihoods in which to raise a family. **HW**

