

## Managing Risk in Your Farm Business

By Michael Boehlje

Most people working in agriculture are in the business of commodities. And in the long run, in a commodity business, it's crucial to be a low-cost producer. Here are some practical ways that you can start lowering your costs today.

### 1. Emphasize execution

If you want to be a low-cost producer, then you need a systematic way of doing things. Most businesses follow a set of SOPs – Standard Operating Procedures. Consider a manufacturing business – they don't reinvent the wheel every time they need to make something. Instead, they have a specific set of procedures that they follow for each aspect of the manufacturing process.

Guess what? Your farm is a manufacturing business, too – it's just a biological one.

You might think that following a Standard Operating Procedure in a farming business is impossible because of uncertain elements like the weather, but think of businesses like resorts or energy companies. They know what they're going to do in case of bad weather, and so should you.

Your SOPs need to have the robustness to respond to what might happen in case you run into bad conditions, or if the future you face isn't the one you had hoped for.

### 2. Focus on timely operations

You've got to have timely operations, and one way to do that is to work around the clock. If you aren't running your operations 24 hours a day and seven days a week, then you need to consider it. There are few other businesses that would make the capital investment that we make in equipment and then leave it sitting idly for 7 to 10 hours a day.

We know a potato farmer whose goal is to reach 22 hours a day working in the field. He leaves two hours a day for road time and maintenance. The value of GPS system means that you can run your equipment 16-22 hours a day. And when you can run for 22 hours a day instead of what you're running now, your machinery costs per acre and cost of production per bushel goes down. Additionally, consider sharing machinery with other farmers to save on machinery costs.

### 3. Schedule your workflow

A farmer friend said recently, "My whole job these days is logistics: figuring out how we can run the business 24/7 and which machinery needs to be where. At 3 a.m. on Saturday morning, we might have a field that we want to plant that needs to have fertilizer on it. So my retailer can either apply fertilizer in advance, or I can call them at 3 o'clock in the morning. I need to work with suppliers and technicians who are available 24/7, because that's how we're operating now."

### 4. Outsource and simplify

You're often better off doing fewer things better, as opposed to trying to do everything. But there are some things that have to get done that maybe you aren't so great at. Start outsourcing them.

Do you do your own tax or legal work? If you aren't very good at it, outsource it. In hog operations, there's more potential for error in genetics and breeding, so most integrated hog systems do that in-house. But they outsource the finishing. It's fundamental to understand that if you do fewer things better, you can often be more efficient.

### **5. Increase asset utilization**

Increase the use of any of your capital assets – what we refer to as asset turnover. Double shift equipment use and hold off in terms of machinery purchases. Is it critical to have the newest equipment with all the latest technological bells and whistles? Instead, you need to make sure that you're well-positioned in case of a tough future.

### **6. Lease rather than buy**

You can typically get into a lease at lower cash commitment than a purchase. Short-term operating leases are a way to increase your asset turnover.

### **7. Grow volume/ sales**

When most people think about growth, they think that it means that they have to buy more vendor machinery. But instead, what you should focus on is getting better at what you're doing. Then, you can start thinking about buying or renting more assets.

### **8. Buy Right**

The first and most important marketing decision you make isn't what you sell your product for – it's what you pay to rent your land. If you pay too much cash rent, you are behind the power curve before you ever pulled the planter into the field.

### **9. Choose a strategy**

Focus on a strategy that makes you excited to get up in the morning. It might be operational excellence, or it might be customer intimacy – adjusting your business to what the customer wants.

### **10. Create value for your customer**

Who is your customer? It isn't the person who is buying food. It's the person or company to whom you sell directly. What conversations have you had with your customers about how you can create value for them? Have you ever talked to your grain elevator about their frustrations?

We work with a farmer who has an arrangement with his local barley processor: they can call on him 24/7, and he's able to deliver 5,000 bushels within four hours. He gets a 10 percent premium on all of the barley he delivers because of that just-in-time arrangement.

If you're in the commodity business, you might be able to differentiate yourself by offering great service, but you need to talk to your customer to find out what services they need.

### **11. Think like a CEO**

Most farmers are excellent operations managers. They know how to do most things efficiently and effectively, and they're great at cost control. But they need to move towards having a CEO mentality. CEOs worry about managing people, money, relationships and strategy – are these the areas that you're focusing on in your business?