

# MANAGING YOUR FARM BUSINESS IN TOUGHER TIMES

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The business climate for the farming sector is transitioning from a period of unprecedented prosperity, particularly for the grain sector, to a much less robust period. The livestock industries have experienced relatively strong financial performance recently, following a period of very low profit margins or losses. The cow-calf sector in particular is expected to show higher than historical profits for the next 2-3 years. But the cycle will turn and producers will face lower profits after herd expansion occurs. So irrespective of the focus of your farming business, positioning to handle the volatility that you will face, and having the resiliency to handle the downside while retaining the agility to capture opportunities, will be critical. To help you navigate this new business environment, we've identified ten strategies for long-term success.

## **1. Choose a strategy**

Focus on a strategy that makes you excited to get up in the morning. It might be operational excellence, being a low cost producer. Or it might be customer intimacy – adjusting your business to what the customer wants. Maybe it's being a first mover, an innovator who is willing to take the risk of adopting new ideas. But it is hard to be "Best in Class" in all three, so pick one and make it your dominant strategy.

## **2. 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 talked to your forage buyer or grain elevator about their frustrations? How can you help them solve their problems? Creating value for your customer makes you a preferred supplier and, as a preferred supplier, you'll gain access to opportunities that otherwise might not come your way.

## **3. Emphasize execution**

Many producers are in the commodity side of farming and need to be low-cost producers to compete in the marketplace. If you want to be a low-cost producer, 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 Standard Operating Procedures in a farming business is impossible because of uncertainty 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. In fact, for a business facing the uncertainty associated with farming, having a well thought out set of SOPs is even more important than for many other businesses that don't often have to adjust to rapidly changing conditions.

#### **4. 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 idle 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 systems is that you can run your equipment for 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 or per ton goes down. How do you get there? Do it incrementally. If you're not ready to run 22 hours a day, try adjusting your operations to routinely add one or two hours per day and see what additional adjustments you need to make. And then do it again. Additionally, consider sharing machinery with other farmers to save on machinery costs.

#### **5. 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."

#### **6. 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.

Most farms don't do their own tax or legal work; why? Because they know they can hire someone else to do it more efficiently and effectively. Just because you're a farmer doesn't mean you're good at every single aspect of farming. If there's something 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 by constructing that phase of hog production with contract growers. It's fundamental to understand that if you do fewer things better, you can often be more efficient.

#### **7. Increase asset utilization**

Increase the use of any of your capital assets – what we refer to as asset turnover. Make sure you keep your facilities full. Double shift equipment use and hold off on machinery purchases. Is it critical to have the newest equipment with all the latest technological bells and whistles? Only if it will help you lower

your cost per bushel. Instead of buying new iron, be well positioned for a potentially a tough future by making sure you have a strong working capital position.

#### **8. Grow volume/sales**

When most people think about growth, they think it means they have to buy more facilities or machinery. But growth is really about increasing revenues and there are many ways to increase revenue. First, focus on getting better at what you're doing, and ways to generate more sales and gross revenue with your current assets. Then you can start thinking about buying or leasing more assets.

#### **9. Buy right**

The first and most important marketing decision you make isn't what you sell your product for – it's what you pay for your inputs. And buying right is not just about price – it includes service, reliability, the warranty, the information your supplier can offer to help you be more profitable. If you pay too much for seed or too much in cash rent, you are behind the power curve before you ever pull the planter into the field.

#### **10. Think like a CEO**

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