

ECONOMICS UNPLUGGED

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Macro Clinic Video Blog: www.compeer.com/education
Road Warrior of Agriculture: www.comandsoybeandigest.com
Ag Globe Trotter: www.northwestfcs.com
Dave's GPS & Dashboard Indicators: www.farmermac.com

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Views From Cyberville for 2020 & Beyond

- a black swan usually occurs each decade with two babies
- economic and financial divide of 2020
 - segment with tax problems
 - segment struggling
- government supports- a larger share of net farm income
- production was key to success in 1980s
- business IQ will be key to success in 2020s
- four segments in agriculture & rural America
 - larger/commercial consolidation
 - traditional
 - value added/niche
 - lifestylers/rural entrepreneurs



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2020s- The Decade of Economic & Financial Divide

- economic volatility in extremes
- manage the controllables & manage around the uncontrollables
- adapt, innovate, focus & follow the process
- decade of management transition
- decade of the agri-entrepreneur

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Global Macro Economic Risk (1)

- globalization vs. deglobalization
 - 1995-2017 purchasing power parity, hyperglobalization
 - emerging nations 2x plus
 - rich nations 44%
 - 1990-2008 global trade share of GDP 39% increase to 61%
 - 2009-2017 global trade share down 9%
 - financial crisis
 - governments, businesses and consumers agendas
 - (ISI) import substitution industrialization strategy
 - supply & marketing chains
 - made in China 2025
 - India, Europe, & U.S. more self reliant
 - concentration vs. diversification

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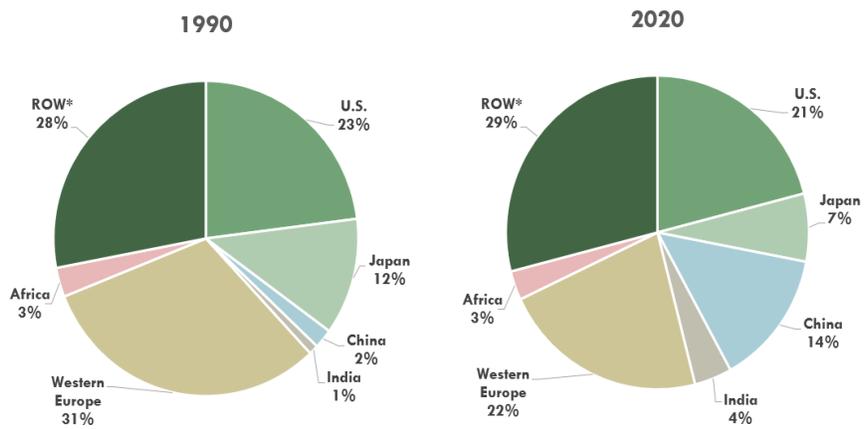
Global Macro Economic Risk (2)

- disjointed U.S. & global recovery
 - 90% economy
 - 50-75% economy
 - 125% economy
- trade agreement uncertainty
 - Australia vs. China
 - rich nations vs. China
 - Belt & Road Initiative, medical innovation path
- central banks/government supports for ag
 - U.S./global support \$2 billion per day
 - duration of support & global competitiveness
 - government encroachment, taxes, regulations, other

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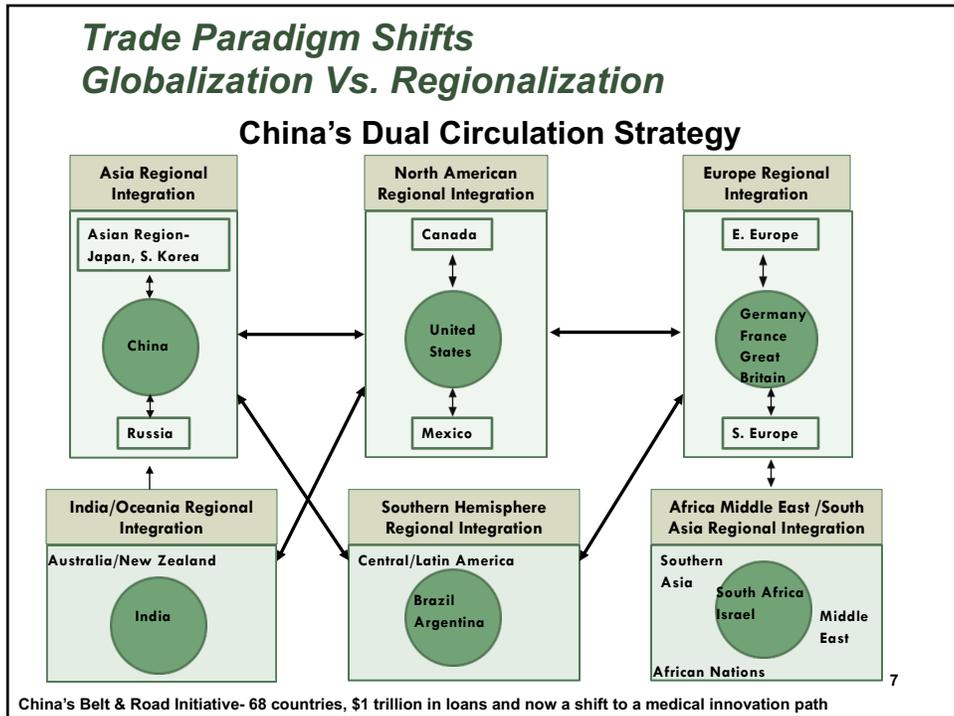
Rising of Asia



* ROW- Rest of World
 Source: Global Insights, August 2018

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Global Trade Perspectives

Trade Agreement	# Countries	Population	GDP	Trade Value
RCEP ¹	15	2.7 Billion	\$25.8 Trillion	\$1 2.5 Trillion
CPTPP ²	11	508 Million	\$11.1 Trillion	\$7.6 Trillion
USMCA ³	3	493 Million	\$24.4 Trillion	\$7.8 Trillion

¹RCEP- Regional Comprehensive Economic Partnership (15 Asian Countries)
²CPTPP- Comprehensive & Progressive Agreement for Trans-Pacific Partnership (Canada & 10 countries in the Asia-Pacific region).
³USMCA- United States-Mexico-Canada Agreement (North America)

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Grain Industry Radar Screen for U.S. & Abroad

- economic health of protein sector
- economic health of trading partners
- weather
- value of the dollar
- consumer trends
- trade issues
- ethanol



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Livestock & Other

- access to markets & marketing changes
- concentration, cannibalization
- competitive products
 - non-meat alternatives
 - non-dairy alternatives
- regulation
- labor, immigration
- health of the U.S. economy



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Greatest Threats to Net Farm Income & Cash Flow

- loss of government supports, one third of net farm income since 2016, higher for some commodities
- tax implications of the government stimulus programs- for example, reduced expenses, due diligence
- weather in extremes- globally, Canada, U.S. & locally
- loss of markets & global competition
- supply & marketing chain disruption
- changes in consumer habits
- inflating expenses, technology inputs, higher taxes, labor
- loss of non-farm revenues, fringe benefits, other

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Future of Agriculture for Young People

Degree of Optimism	¹Ag Lenders Percent	²Crop Insurance Percent
Very optimistic	6%	4%
Optimistic	51%	40%
Neutral	18%	25%
Pessimistic	22%	29%
Very pessimistic	3%	2%

¹Poll results from 294 ag lenders- August 2020

²Poll results from 465 crop insurance professionals -Sept. 2020

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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

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COVID-19 The Black Swan Disruptor- 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

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Management Mindsets for the 2020s



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Four Pillars of the Business Model of the Future



Four Pillars:

<p>Resilient</p> <ul style="list-style-type: none"> ▪ know cost of production ▪ marketing & risk management program ▪ capital/equity borrowing capacity <p>Agile</p> <ul style="list-style-type: none"> ▪ working capital ▪ market for product ▪ optimization/efficiency vs. diversification/resiliency 	<p>Entrepreneurial / Innovative</p> <ul style="list-style-type: none"> ▪ “people first” business <ul style="list-style-type: none"> ▪ invest in people ▪ align with rapidly changing marketplace ▪ quarterly sprints/journey of sustainability <p>Strong Business IQ</p> <ul style="list-style-type: none"> ▪ high scores in all 15 areas ▪ plan, strategize, execute & monitor ▪ written plan for improvement ▪ dashboards
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Which pillar is more important?

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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.

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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

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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
Total				

***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

Score	Overall Analysis
35-50	Strong management rating & viability
20-34	Moderate risk & viability; will most likely show previous refinancing
<20	High risk & lack of long term viability

Developed by: Dr. David M. Kohl, Professor Emeritus, Ag & Applied Economics, Virginia Tech

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Business IQ Exercise

After completing the Business IQ: Management Factors Scorecard, what are three areas/points in your business that you will continue and three areas/points for improvement?

Three areas/points to continue:

- _____
- _____
- _____

Three areas/points to improve:

- _____
- _____
- _____

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Business IQ Summary: Areas to Continue/Improve

HUSBAND – BUS IQ: 53

3 Areas to Continue

- 1 Irrigation/manure mgt
- 2 Intense office management
- 3 Improve crop/livestock efficiency

3 Areas for Improvement

- 1 Office management using CFO's talent
- 2 More efficient labor
- 3 Executing the marketing plan

LENDER – BUS IQ: 35

3 Areas to Continue

- 1 Crop production KPIs
- 2 Using equipment longer before trading
- 3 Getting outside advice

3 Areas for Improvement

- 1 Cash flow - extending current loan terms
- 2 Comparison of budget to actual
- 3 Crop/livestock inventory

WIFE – BUS IQ: 39

3 Areas to Continue

- 1 Record keeping- ratios, B/E
- 2 Cost of production (livestock)
- 3 Productivity of crops & livestock

3 Areas for Improvement

- 1 Financing without high interest rate
- 2 More seminars on ratios/break-even
- 3 Communications & employees' knowledge of how the business works

DAUGHTER – BUS IQ: 38

3 Areas to Continue

- 1 Researching cost effective crop/livestock mgt practices
- 2 Diversifying the farm in livestock
- 3 Searching for a new ag lender with better rates

3 Areas for Improvement

- 1 Employee handbook with written guidelines & perf. evaluation
- 2 Lease equipment to avoid high repair bills and subscription fees
- 3 Crop/livestock KPIs

CFO – BUS IQ: 40

3 Areas to Continue

- 1 Crop Production
- 2 Custom Hire
- 3 Diversifying in livestock

3 Areas for Improvement

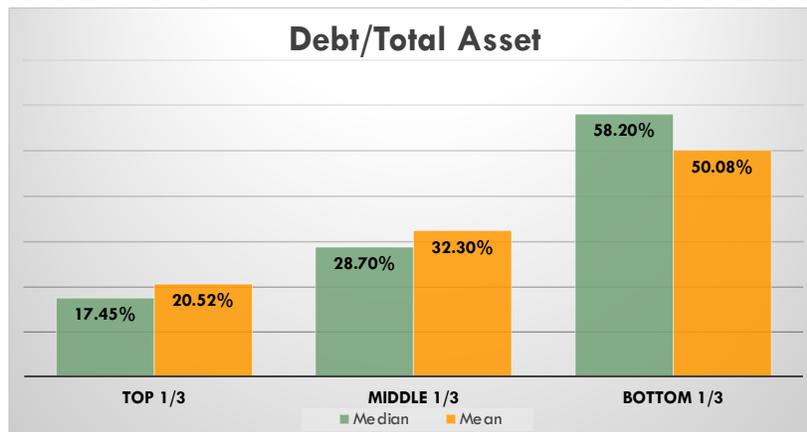
- 1 Debt restructuring- reduce interest expense- improve cash flow
- 2 Lease versus buy equipment
- 3 Pay invoices within terms to avoid finance charges & get cash discounts



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Financial Ratios Across Business IQ Percentiles

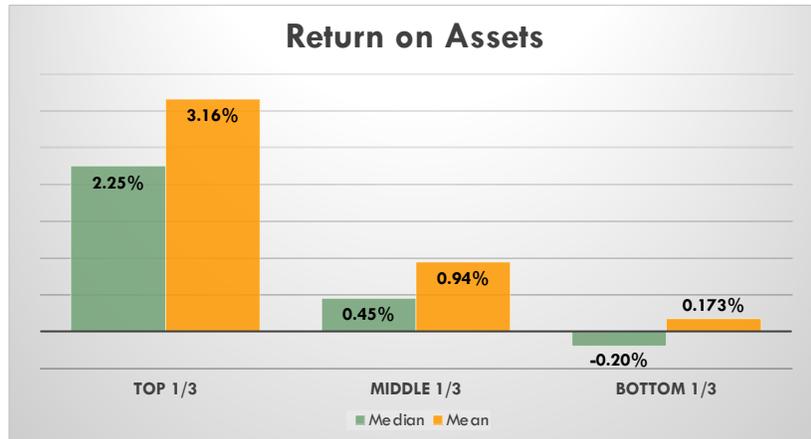


Preliminary Study of Kentucky Farm Business Management Association data - Ben Isaacs, Undergraduate Research Study at University of Kentucky

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Financial Ratios Across Business IQ Percentiles

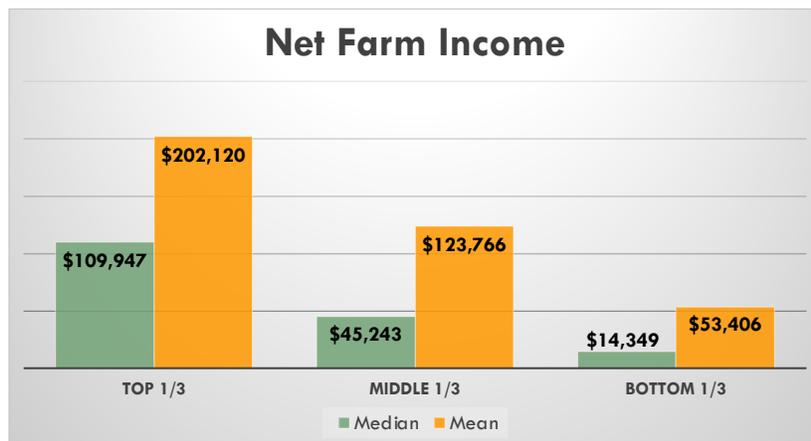


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Financial Ratios Across Business IQ Percentiles



Preliminary Study of Kentucky Farm Business Management Association data - Ben Isaacs, Undergraduate Research Study at University of Kentucky

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Characteristics That Are Important to Agricultural Producers for Resiliency & Agility

Poll results from 976 ag lenders- Summer 2020

Characteristic	Percent
Know cost of production	62%
Execute a marketing risk management plan	58%
Strong working capital	41%
Modest living	29%
Positive, proactive attitude	29%
High equity to debt ratio	28%
Use an advisory team	21%
Good communications	16%

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What Specific Actions Are You Taking in Your Business, Family & Personal Life for Resiliency & Agility? (300 Kansas Farm & Ranch Women Selected Top 3)

Specific Action	Percent
Refining budgets on cost of production & break-evens	30%
Executing a marketing & risk management plan	16%
Building cash and working capital	41%
Increased communications with lenders, suppliers & family members	22%
Utilize a team of advisors (lender, crop/livestock specialists, financial advisors, etc.)	21%
Refining family living budget	39%
Reexamining your goals - business, family & personal	68%
Exploring more local markets and value-added opportunities	29%

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The Family Business in Your Future Checklist

Question	Answer
1. Is the business profitable? (Be careful of tax records!)	
2. Have you completed a resource assessment? Is the equipment & machinery rusted, worn out, etc.? What about quality of land and water resources?	
3. What are the siblings roles?	
4. Is enough net income generated to support family/families?	
5. Does the operation meet the Mom/Dad, Grandma/Grandpa 50% rule?	
6. Where will parents live?	
7. What are the skill sets of the stakeholders?	
8. Is an asset transition or management transition plan in place? Which is better?	
9. Is the family business using the bank of Mom & Dad or a regular lender?	
10. Is this a pilot enterprise?	

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The Feisty Fifteen: Problems Your Business Should Have ⁽¹⁾

- Your business pays lots of taxes.
 - find sweet spot of paying taxes vs. deductions
- Your lender wants to loan you money.
 - strong profits/cash flow
 - war chest for working capital - greater than 25% of operating expenses
- You have growth frustrations, just can't grow fast enough.
 - overestimate capital and time by 25%
 - term debt to EBITDA < 5 to 1
 - working capital to debt service > 5 to 1
 - human horsepower & management acumen
- Everyone wants to work for you.
 - attract & retain the right people, including family members
 - be a work culture magnet
 - over compensate productive people

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The Feisty Fifteen: Problems Your Business Should Have (2)

- Your business has excess cash sitting around.
 - cash is queen
 - blocking capital in adversity
 - opportunity capital for purchases or acquisitions
- In a family business, the older generation suddenly wants to exit, and they have at least 50% of retirement income generated outside the business.
- You have time for family & friends when neighboring businesses don't.
 - 2,500/500 hour rule
- You could walk away from the business for one month and it functions fine without you.
- You left money on the table when marketing this year's crop or livestock.
- The younger generation spends too much time in the office on the computer and in the books.
- You must spend money for a facilitator and team of advisors for your transition/estate plan.

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The Feisty Fifteen: Problems Your Business Should Have (3)

- Your neighbor comments that you spend too much time at seminars and conferences, and you have heard it all before.
- Even though you are financially successful you still spend time refining your written business plan.
- You don't have to bring your personal checkbook to the business board meeting.
- Mom & Dad, Grandma & Grandpa are upset about those tough questions that you are asking in developing the business plan.

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Wisdom for Well-being

- M.E.D.S. for life
 - Meditate
 - shut down the drama
 - hear the silence
 - platform of peace
 - Exercise
 - endorphins
 - routine
 - work & life balance
 - Diet
 - physical health
 - feel guilty once in awhile
 - Sleep
 - replenish the body
- AND
- a positive support network
 - financial net worth is not equal to self worth in life



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