

January 28, 2011

MANAGING IN THE AGE OF TURBULENCE

An agriculture economics expert from Virginia Tech University was the featured speaker at the Fifth Annual Ag Management Expo at the SCC-Beatrice Campus last week. Dr. David Kohl made two presentations including the “Ten Golden Rules of Ag Management” and “Mega Trends of Agriculture in the Age of Turbulence.” The opening statement was 70 percent of North American farm ground will change hands by the year 2025. That includes land sales and farm rent and lease arrangements. Farmers will be working with a new set of landlords. One size of operation will not fit all. There will be local, natural or organic operations, traditional family farms and large, complex, business structure farms.

Kohl talked about the 4 super cycles in agriculture in the last 100 years. There had never been more than three good years in a row until now, mainly on the grain enterprise side. He reminded the audience that livestock producers tend to be more disciplined with their money, because they have to be that way to stay in business. He said we may be entering into a danger zone in the crop sector. Disciplined farmers should build 25-30 percent working capital, or those assets you can turn to cash (not being land) as a risk management tool.

Kohl mentioned to the students attending, to work three years away from the farm business. Farm businesses that do that are four times more profitable. Somehow Dad will figure out how to survive through that period. He encouraged youth with interests in farming to spend at least six months or a year out of Nebraska. Many of the students will need a full time job first while farming part time.

Kohl encouraged parents to show the business records and books within the first six years and for the youth to visit and get to know their farm business lender. The new generation is too quick to shop nationwide for the lowest interest rates when they borrow. When times get really tough, what local relationship is there to work things through? He shared an example of a son whose first real look at the books in the farm business was at the age of 72 when his father was 93 years old.

Explosive growth in the “BRIC” countries, have influenced our grain markets. BRIC stands for Brazil, Russia, India and China. When they need more food, they look at the world’s breadbasket which is us. Let’s not talk about if their economy goes sour, our short-term and long-term interest rates go up, the livestock sector weakens, the ethanol business takes a hit or when commodity prices down turn with today’s high input costs. We are in so much more of a volatile price situation than years ago. Supply side with the grain markets indicate we are at or near historic low carryover stocks with corn and soybeans, giving strong underlying support in the grain markets.

Agricultural land has appreciated in value 63 out of the past 71 years. Kohl reminded the audience to strive for a debt to asset ratio of 50 percent or less when buying land and never get involved in land “flipping.” Flipping is the term of buying and selling land quickly. “Being the last person holding the baton is never a good idea,” he said.

Kohl talked about a person that used to have eight successful businesses. He purchased \$18



million dollars of new real estate in the Southeast part of the U.S. and placed \$14 million in cash down while borrowing the remaining \$4 million dollars. No problem right? In the current recession, seven of his eight businesses are losing money right now and his property can't even be sold for \$3.8 million and he is now divorced.

Kohl believes the good time cycles are for getting better and more efficient and working on the margins. Tough times are actually the best times to build long-term success and expand the business.

Randy Pryor, Extension Educator
University of Nebraska-Lincoln Extension in Saline County
306 West 3rd Street, Wilber, NE 68465

Phone (402) 821-2151 • Fax (402) 821-3398 • e-mail: randy.pryor@unl.edu