

### ***Top Questions from the Road***

One reason I enjoy speaking and interacting with producers, lenders, and thought leadership groups is because they ask insightful questions that require me to think critically. In this edition, I will elaborate on a few nuggets from my travels this summer.

*“Given the increase in input costs, declining commodity prices, and rising interest rates, what are the top three areas where producers should focus?”*

One area of focus is monitoring cash flows and income statements. With larger numbers on the financial statements, an annual checkup is no longer sufficient in this economic environment. I recommend monitoring cash flows and income statements at least quarterly, if not monthly. As a part of routine monitoring, lenders and producers should conduct variance analysis which will show the difference between actual and projected results. Variance analysis can be a useful tool to tweak the business as economic conditions change and uncontrollable events arise, such as weather.

A second area of focus is to understand the cost of production and the cost of production by enterprise, if multiple enterprises exist. More importantly, producers should know which costs are a high priority in the monitoring process. For example, some producers will isolate the top five costs and attempt to cut each category by one or two percent.

The third area of focus is to market your product when the profit window occurs. The days of home run profits earned during the super cycle years are in the past. In this economic environment, base hits will win games in the long run. This means that the business will conservatively earn a little profit when opportunities occur, rather than going for a one-time large profit.

One of the best ways to maintain focus is to have a strong advisory team. Do not go at it alone! Meet with your team of advisors on a regular basis. These individuals should have a positive mindset and see the cup half-full, rather than half-empty.

*“What will be the impact of technology on farming and ranching and how rapidly will it change agriculture?”*

Well, one could write an article the size of the book *War and Peace* to respond to this question. Technology is not only impacting the crop and livestock sectors in the U.S., but also abroad. As you travel, notice the uniformity of crops today, and the genetically improved livestock that our parents and grandparents would envy. Technology is

improving the upside potential of yields and protecting crops from downside risk from drought or other adverse conditions. Seed technology and shifts in weather patterns are having an impact on where and how producers farm and ranch. For example, you could travel to Canada and be in awe of how soybeans are now a major crop after experiencing a fourfold increase in production in the past three decades.

In addition to its effect on production, technology is also influencing demand. The changes in consumer demographics and taste, specifically the millennials and Generation Z, are major influences on the food and fiber industry. Information and big data in the hands of Amazon and other technology companies are major disruptors in the wholesale and retail food and fiber marketplace. Agriculture in the U.S. and abroad, which has been driven by mass production, will now become a very splintered marketplace. These same changes can be observed in the beer industry where microbreweries have impacted the large companies such as Budweiser and Coors Molson. One key to success in marketing to the next generation is that they prefer to purchase customized, personalized experiences rather than products.

*“What is the single best enterprise for a young producer?”*

This is one of the most common questions put forward by aspiring agriculturalists. The answer is that there is no one major enterprise or silver bullet. A young person must assess their talents, skills, and experiences and align these cognitive assets with their available land, capital, and information resources. The next critical step is to evaluate how their talent and resources can be aligned with the marketplace. In some cases, the right answer may be an enterprise on a family farm or partnering with a producer who has no successor in their family.

One of my observations of youth and beginners in agriculture is their ability to multitask. This may entail multiple sources of revenue. Some young producers have one, two, or three enterprises on the farm, and off-farm business income or employment. The term for these industrious producers is agri-entrepreneur. It is important to remember that there are very few “get rich quick” schemes out there in the agriculture industry.

*“Where do you see interest rates going?”*

Whether speaking to a group of producers or lenders, questions regarding interest rates are a fan favorite on the road. The bottom line is that interest rates are set by the coastal and general economy, not the agricultural economy. With that being said, the U.S. economy has expanded for over 110 months. Changes in the tax laws and some of the regulation cutbacks have provided a growth spurt in GDP, now north of three

percent. If this growth rate persists and unemployment remains in the high three or low four percent range, expect higher interest rates. Next, observe both core and headline inflation. Core inflation is calculated without the food and energy components. If inflation sustains above three percent, expect rates to increase three times in the next 12 months.

In your operation, use sensitivity testing to analyze how three rate increases on variable interest rates will affect your loan structure and cash flow. Another side effect of increased interest rates is a stronger dollar, which could inhibit exports.

*“What do you perceive as the biggest challenge to agriculture?”*

The uncertainty regarding international trade and the constant noise from the media and social media, along with the aforementioned changes in consumer preferences and NGOs (non-governmental organizations), are on the forefront as challenges. No matter how and where we farm and ranch as an industry, we have only just begun to transition into this arena. If compared to a baseball game, we are only in innings one and two.

This will require that the owners and managers of tomorrow’s agriculture have a high business IQ. This is the ability to plan, strategize, execute, and monitor results. Flexibility and adaptability, with engaged knowledge and learning, will be the differentiators for success.

**Management Tip:**

One producer and his spouse indicated that they hosted a foreign exchange student this summer. In a world of lower commodity prices, this student’s views and perspectives were a refresher on how well-off the couple is when compared to producers and citizens in other countries.