

Agriculture Asset Management; Sound Business Development

By George Baird, AFM and Randy Little

Abstract

Farm management/asset management is defined as the coordination and supervision of a farm business to increase long-term profits or to achieve other specified goals. It involves management in all areas of successful business operation, including production, marketing, finance, and personnel. This article explores fundamental aspects of each with application to professional farm management.

Introduction

Professional farm management in the 21st century involves much more than just the leasing of ground and collection of rents. Understanding the various factors that are included in the process, such as sound business planning, crop production, and marketing of crops and a variety of other influences are keys to success. Professional farm managers have a fiduciary responsibility to clients to represent them in all matters related to their farming asset. Whether it is providing information to enable them to make decisions or actually making those decisions for them, always have a sound idea or plan of how this transition to professional farm management can be made. Not only will these decisions impact the farm, but will also have a big impact on the family and others who are directly or indirectly involved with the farm.

Farm Management/Asset Management can be described as the coordination and supervision of a farm business in order to increase long-term profits or to achieve other specified goals or objectives (Leunig & Jones 12). It is a combination of the following:

- ♦ Production Management
- ♦ Business/Financial Management
- ♦ Marketing Management and
- ♦ Personnel Management.

Achieving optimum performance in all these areas requires a strategic or "master" plan. A strategic plan can establish clear directions, define in measurable terms what is important, to help anticipate problems and avoid



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those problems, allocate resources, and provide a basis for evaluating performance. This can be summarized as planning, implementation and control.

Developing a sound presentation of duties and services to be provided as a farm manager is a key to developing business. However, too often the focus is on the business models, production, finances, and marketing. While these are an integral part of the management function, remember those personal relationships, which, to individual owners or family owned operations, may be much more important to them than we realize. Years and years have been put into the building of relationships and, good or bad, they must be considered. Always remember this as management begins. To assure a smooth transfer to professional management, it is helpful to provide a guideline to owners, an idea of how all issues are to be handled.

A management transition plan can assist in developing a successful marketing and presentation plan as well as a guideline to undertaking new management accounts. Explaining all the functions necessary as a manager, in a way that can be completely understood by absentee landowners and investors, will be a key to successful business development. Each step in this process is vital to presenting a sound management plan.

Business/Financial Management

- Clearly define the goals and objectives of the owners.
- Review financial performance of enterprises and entire farm business unit
- Review and analyze all assets of the farming unit
- Develop preliminary budgets for upcoming year

A main principle of success is to have a clear picture of what needs to be accomplished. Sitting down with an individual or group to discuss the details of the current farming operation will help to begin to define the goals and objectives of the farming unit. It is the manager's job to help the owners explore all possible scenarios and develop the one that best fits their needs.

Sometimes the selling of a long-held family asset seems to be the only option. With the commodity markets looking bleak and less-than-optimistic operators farming, liquidation appears inevitable in many cases. One client was considering just this scenario, because no other alternative seemed possible. Further

analysis of the farm records revealed that the owners had been receiving only 35 to 40 percent of the going market rate as rent on the property. As this fact was made known to the investor the goals and objectives of the owners quickly changed.

The lack of information or knowledge of the agriculture sector and local area often leaves the owners with very little information with which to make a decision. Completely explaining the alternatives available will give owners a unique insight into the agriculture. Only then will that relationship and trust be built that is vital in obtaining new business.

Begin formulating ideas and alternatives, ask questions about the past performance, yields, government programs, land ownership etc. Talk about crop rotations, markets, how they became owners of the land and what are the future plans for the land. Ask about income and returns on the farm and begin analyzing the farm situation. This is also a time to keep in mind how and if this operation would compliment and benefit your firm's own goals and objectives.

Once basic farm goals and objectives have been set, begin looking at several analytical tools to help decide what changes need to be made to meet the desired results. First, look at the data and information provided on the farm as an entire unit. Study the past returns on investments, debt to asset ratios, net capital ratios, return to capital, return on equity, and return on assets. Look at the debt structure of the farm and any account receivable that might provide insight to the overall business unit. It is also a good idea to measure liquidity and gauge their risk tolerance. All of these measures will help formulate the "action" plan.

Physical assets must also be included in assessing the property. Irrigation and tiling, grain bins, machine sheds, houses etc. may provide additional avenue of rental income or may need to be sold off. There are instances when over the years, the owners have provided the operators with some very significant improvements and even equipment without receiving any compensation. Look at the property with a vision of what the farm will need and be ready to analyze those costs to be presented to the ownership along with the expected return on those additional investments.

It has never been as apparent as it has

been in the last several years that whatever the operators are doing on the farm is not necessarily what is in the best interest of the owners. For example 1/3 of a soybean crop will bring less money than an average cotton crop at 25 percent. Lower input cost for an operator may equate to higher returns on soybeans but will greatly reduce the owners expected return. The operators are also able to take advantage of farm subsidy because of the flexibility provided with the current farm bill. As a manager we must represent an owners interest in controlling the acreage to be planted and the crop rotation on the farm property. Enterprise analysis worksheets and complete estimated cash flows as well as income and expenses projections are excellent business development tools. In these expenses be sure to include your fee while pointing out the added value of what professional farm management can bring to the table.

Production Management

- Review past Performance and Production
- Analyze specific field information and soil analysis information
- Assess what new technologies have been utilized and make recommendations for needed usage
- Begin preparation work and planning for upcoming year

The production capability of each farm is the backbone of what can or cannot be expected on a particular farming operation. Talk with the owner about specific production problems noticed on the farm as well as those production areas that have excelled. Question crop rotations and how those decisions have been made in previous years.

Drainage, fertility, and irrigation are three of the most important factors of production agriculture. Understanding these areas and how they affect production is crucial to farm management decisions. Tenants often mention improvements to the owners but do not adequately explain the reasoning or benefits these improvements would bring to the farm. On more than one occasion, as management has begun, the tenants have stated that the owners don't understand the problems with the farm and have never been willing to spend anything to improve the farm. Usually this is the farthest thing from the truth. Many times, owners are more than willing to make the needed changes

if a cost benefit analysis is provided and an adequate explanation is given to them in a manner they can understand. We must begin to build the relationship so that, as the bridge of trust is laid, you can begin to establish control over the asset as the owner's agent and begin making those needed improvements.

Another issue to address is technology and where it fits in on the farm. In the last 10 years we have made revolutionary advances in the world of agriculture. While technology is omnipresent in everyday life, many people do not yet associate technology with agriculture today as in other industries. On a recent farm inspection with the owners this became very apparent. The owner's sons and eventual heirs are very in tune with the world of technology and computers in their everyday lives but had no idea of the realm and usage of technology on the farm itself. An explanation and introduction to basics of precision agriculture, yield monitors, variable rate technology, gmo's and a variety of information opened some interesting conversation. While one son had always been in touch with the farm the other had more or less left it up to someone else to deal with. He walked away with a new appreciation of the farm as an asset and a renewed interest.

Presenting and discussing production management also means having an opportunity to make preliminary recommendations. Talk about ideal crop rotations, land leveling, varieties and any other production factors that will affect the property both short term and long term. Focus on those successes with similar farms and relate directly to the owners how these changes will benefit their property.

Take time to explain to them the basics of the current farm bill and its implication to the U.S. producer. Discuss commodity markets, cost of inputs, land markets, supply and demand. As they become familiar and understand more about the workings of the farm economy they will be more likely to take those steps necessary to improve their property. It will help build their confidence in you and give them tremendous insight into agriculture than many people do not know exists.

Marketing Management

- Discuss crop marketing decisions/options
- Introduce owners to value-added, gmo's and other specialty crops that may present opportunities

- Assess risk tolerance and begin setting the ground work for the coming year

Explaining commodity markets and marketing as well as other factors that agriculture and producers face will prove to be very beneficial for business development. While we want to educate clients do not overwhelm them either. Provide the basics that are easily understood and then build from there. Supply a sample marketing newsletter or evidence of past marketing successes. This type of material will help the management presentation.

Too often the tenants are “taking care” of the marketing. This basically means they are selling as product is delivered and no clear marketing plan has been established. Producers who have several landlords may find it too time consuming or simply a hassle to do any other type of programs and the owners suffer as a result. With the current commodity markets, a solid marketing plan is a must. Margins are too tight to leave any money on the table. Remember, no matter what is done, the owners must understand so they are comfortable with the level of risk involved.

Developing a solid marketing plan must always take into account other opportunities that may exist, such as seed contracts, food beans, or some other crop. Premiums for food beans, seed production, popcorn and a variety of specialty contracts may exist in any area. In fact, during the last growing season there were areas that were receiving premiums for conventional soybeans because producers were able to meet demands for specific time periods at specific locations. Specialty markets will continue to grow and more opportunities for contracting will be available. Continue to explore these opportunities which will enhance farm income and increase management fees.

Showing owners opportunities that may exist, explaining the benefits, and having a plan outlined will help add new business. Presenting a basic plan that can easily be customized to fit a target audience is a key to business development.

Personnel Management

- Meet with those long-term operators and employees
- Call on those local professional people who they have done business with in the past
- Make those personal contacts with people who helped them in the past

- Reports, recording keeping and contact with ownership

This topic may in fact be the most important key to your success. Too often managers, focus on how to “fix-it” and forget to pay attention to the deepest needs of the owners. Any type of service-oriented business has a certain level of personnel attachments. Unless this is a newly acquired asset, the owners have had years and years of dealing with local producers, FSA employees, chemical and seed dealers, and typically family or close community ties.

In many cases owners have known the tenant for many years and consider them one of the family. Too often these ties are strong and no personnel changes will be allowed. Share these concerns with the owners; assure them you will work as closely as possible with the current farmer to meet those goals and objectives that you have established together. However, reassure them that if the producer does not conform or show a willingness to make the necessary changes, they may see the performance of the farm and returns suffer. Owners must understand that this is not simply land but it is a major investment and it needs to be run as an investment. As an asset manager be prepared to handle all these situations.

A tremendous tool to use can be those local professionals, such as attorneys, bankers, elevator managers, and scouts, that the owners have dealt with in the past. A willingness to consult or meet their local contacts may ease the anxiety they have in making a big decision to hire a professional farm manager. It can also be a quick source of future referral business. Recently, a local accountant inquired about farm management services we provided to one of his clients. Despite terrible commodity prices and an extremely droughty summer, significant increases were noticeable and future reference are sure to follow. That can also be the case from other contacts the owner has from the area. They will be talking to those trusted friends and family who will be watching the farms performance.

As new clients are added, do not put their needs and desires on the back burner in your quest for more business. A satisfied client will prove priceless as a business development tool. Develop a plan to keep your client informed of the status of the property. Reports,

accounting statements, e-mails, newsletters, and personal contacts will be the key to maintaining them as valued customers. The key is to know the client and provide them with the information they need in a manner they can understand. Some clients really like to hear the details of the crops, what is happening in the local area, and any of those personal interest stories related to the farm. On the other hand, some clients only want to know how much money they have and how much they need to leave in the account for upcoming expenses. Letters, numerous reports and small details are not what they are after.

Know the customer and find out what their needs are. Customize management to fit those needs, and deliver the products and services as promised. Provide the best possible products and services and success will soon follow.

Summary

Customer focus is the future of growth in this service-oriented business. Servicing those needs and wants of clients and potential clients will be the key to success. The presentation process will vary among clients and our business development efforts must be set forth as a plan or outline that can adjusted to meet the owner's objectives.

Production management, business management, financial management, marketing, and personnel management are all major functions of what the professional farm manager of today must perform. Identifying the goals and objectives of the owners will help set forth a management plan not only after receiving a contract, but will also help identify and adjust in making your management proposal or presentation to the property ownership. The better these topics are presented and broken down for owners, the more confidence and trust will be shown in you and your company. Use knowledge and information, background, training and skills to formulate a business development proposal. Also key in on the background and support mechanism you have in the American Society of Farm Managers and Rural Appraisers. Brochures, the network of professionals from which to pull knowledge, continuing education opportunities and association with the best farm managers can be used to your advantage.

While none of the information provided is new, it will serve as a reminder to each of us in our business development. In my early years of business development I would go into a sales call with the focus on a sign-up based on my

agenda. This proved to be very frustrating. I could not understand why they did not get "it". They needed the service offered. Stop and truly listen to the perceived wants and needs. Then you can begin explaining all the aspects of the agriculture and how value can be added through professional farm management.

References

Leunig, Robert A. and Bruce Jones. "Characteristics of U.S. Farm Managers, 1989 Yearbook of Agriculture: Farm Management. How to Achieve Your Farm and Business Goals. U.S. Department of Agriculture. 1989. Pp. 12-14.