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### **Making Small and Midsize Farms Work**

By: Dr. David M. Kohl

Working with young and beginning farmer and rancher programs is very fulfilling. Annually, I am a part of approximately 20 multi-day programs which are designed to inform, engage, and inspire individuals and families to reach their business and lifetime aspirations. A group of small and modest sized operators asked, “What does it take to be a successful agriculture business in a world of consolidated, larger operations?” Let’s take a look at decades of wisdom that can support success for smaller operations. These items are in no particular order of importance.

#### *Low overhead cost*

One critical element for any business is to maintain low or modest overhead costs. Some producers have harnessed the power of collaboration by sharing equipment and sweat equity for the use of machinery, facilities, and, in some cases, pasture and crop land. Others have found that sharing trucking for inputs and outputs can stretch the overhead dollars. In one case, three enterprising producers share an accountant that knows agriculture as a method to reduce overall overhead costs and make the service affordable to their operations.

#### *Niche markets*

One of the commonalities amongst small and modest sized businesses is their ability to find niche markets, which are often tied to side enterprises designed for certain market segments. Whether it is selling hay for horses or exotic animals, ice cream shops, wedding venues, or agritainment, these ventures can be profitable, but are also rewarding because you are working with people. This entrepreneurial mindset requires being several products and services ahead of the curve because the competition will attempt to commoditize the concepts. Of course, when working with niche markets there will come a time where you have to handle “the cranky customer.” Remember the 96-4-50 rule. Ninety six percent of customers are no problem, but the four percent that do cause problems may require as much as 50 percent of your time if you are not careful. Sometimes you might want to fire the customer!



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In niche markets, the customer seeks transparency and 75 percent of success can be linked to the customer experience. Some in this marketplace find that children and grandparents can be tremendous marketers by introducing products through tours and demonstrations. Telling your story to this group can be a powerful motivator to the earners of the family that may not necessarily be present.

### *Outside gig income*

Remember the old standby rule: to be a full-time farmer and rancher requires \$40,000 to \$70,000 of accrual adjusted net income annually. This equates to \$20 to \$40 per hour as a management fee. Outside income from salaried positions or “gig” income that utilizes talents and skills can be utilized to supplement the operation. Through my work with small and midsize businesses, I often observe outside income coming from trucking, welding, lending, and teaching. While a secondary source of income is beneficial, producers with outside income also benefit from opportunities for networking and engagement with others for new ideas, perspectives, and possible markets. Outside income is often used to supplement cash flow in startup businesses, where it can take several years to launch and grow the business before it is profitable.

### *Time management*

A critical element in the operation of smaller and mid-sized entities is time management. You are often pulled in many directions with demands on your time. Remember the 3,000 / 1,000 / 2,500 hour rule: If you have a full-time position, no more than 1,000 hours can be allocated to a farming enterprise for a combined total of 3,000 hours with the full-time job and the outside business. Ideally, this needs to be 2,500 hours to maintain a balance in life and business. The pandemic has accelerated flex hours, working from home, and a shift in work hours as a result of seasonal demands on the business. As one CEO of an agriculture company indicated, “I am not here to be a clock watcher or a hall monitor. All I want is productivity.”

### *Modest living*

Over the decades, one element I have noticed among small and midsize businesses is a conservative, modest lifestyle. Remember, each dollar saved in living costs equates to about \$1.35 in free cash flow because living withdrawals come after income taxes and social security deductions. Yes, some living expenses may be commingled with the business expenses.

Another component that I stress with this segment is to maintain at least six months of family living expenses in cash because of the uncertainty of agriculture economics.



### *Assistance*

There are a number of programs available to startups and growing smaller businesses from a monetary and educational standpoint. Lenders such as the Farm Credit System, commercial banks, Farm Service Agency (FSA), and some state programs offer adjustments in interest rates and terms that can provide a boost for startup and growing businesses. Farm management instructors and state Extension programs can be invaluable for information and guidance. More grant programs and other capital incentives are also being observed nationwide.

### *Family and people involvement*

When it is all said and done, many producers will indicate that the best crop that they will raise will be their family or a young person that is interested in agriculture. Fulfillment often comes from beyond the bottom line. The development of a young person's skill sets, an appreciation of working with soils and livestock, and the growth of entrepreneurial skills can establish a foundation for life's journey.

There is a place for all size businesses in the agriculture industry. Assessing your goals and values and following some of the aforementioned golden rules can help make small and midsize businesses work.

