

Inside the Mind of an Ag Economist: Part 2

David Kohl offers advice for young producers looking to college and agriculture.

by Kindra Gordon, field editor

Revered ag economist David Kohl has bullish optimism for young producers looking to go into production agriculture.

“I think it’s a better time to get into farming and ranching today than it was five years ago,” he says.

Kohl, who is professor emeritus of agricultural and applied economics at Virginia Tech University, where he taught for 25 years, also speaks from real experience. For nearly two decades he has been co-owner of a large dairy based in Virginia. Today, he also travels the country — and internationally — sharing business-management advice with producers across all sectors of agriculture.

Why does Kohl suggest now is a good time to get into farming or ranching, or to expand an existing operation? He points to one big statistic: 60% of U.S. land will turn over ownership by the year 2030 because of the aging demographic of current landowners. Additionally, he notes that 20% of family farms have no next generation returning to the operation, which spells opportunity for those looking to get into the business.

Other factors

Kohl also cites the current low interest rates and the drop in machinery and equipment values as two core reasons providing opportunities to get into ag. He notes that some machinery values are down 20%-40%. Likewise, he notes that today many producers are finding ways to farm and ranch with less machinery, which decreases operating expenses.

Kohl credits new producers with being savvy about collaborating on

assets and talent sharing, which also provide a means for getting into the business with less expense.

For new and expanding producers, Kohl emphasizes that in today’s marketplace there are opportunities for all sizes of operations.

“There is no one size fits all. You don’t have to have 300 cows or a certain number of acres,” Kohl says. He notes that the younger generation is finding creative ways to market, multi-task and create various revenue streams.

With regard to size of an operation, he tells of a farmer in Tennessee who made the decision to let go of several thousand acres of leased land. He chose to focus on enhancing production of his higher-producing land and now measures his profitability by field to track his margins. In this example, the producer is generating as much income and has more time for his family because he refined his focus and production.

Kohl points to niche markets for food and ag products as opportunities for producers. In the dairy he co-owns, Kohl says they’ve created markets for eggnog and ice cream, which bring more value than milk. Similarly, Kohl sees revenue opportunities in agriculture by attracting visitors from tourism or selling products online.

Kohl says one of the best reasons to get into farming and ranching is that it is still one of the best livelihoods in which to raise a family.

For the college-bound

For students at the crossroads of preparing for college choices, Kohl, who comes from the world of academia, has some strong opinions.

“College tuition is getting out of hand,” he says. “Many schools have too many administrators and fancy buildings. Vocational and technical schools can be very appropriate for some students. The important thing is to get a skill.”

No matter where a student goes to college, Kohl says, “You’ll only have five good professors in your lifetime; learn from them.”

Also important, he advises: “Find the right group of people and influencers to spend time with.”

Regarding internships, he advises having at least one within the United States and one on the international level. He also recommends the younger generation work away from their family business for a few years to gain experience — and make mistakes — somewhere else.

To all students, he cautions about using technology judiciously.

“On average, people check their phones 138 times per day. That’s too much,” he says. “Please shut off technology while eating. That is sacred time to communicate [with family or coworkers].”

While millennials have been talked about a lot in the news, and are 83 million strong, Kohl is optimistic about the gen Z segment. They were born between 1995 and 2012, are 70 million strong and, he says, they are the next generation driving consumer, political and economic trends.

“Gen Z has old-timey work habits because they saw their parents lose money, and they relate better to baby boomers than millennials,” says Kohl, who is encouraged by this.

Finally, to family operations bringing old and young generations

together to operate a farm or ranch, Kohl advises finding balance. If the mentality is that things need to be done the way they've always been done, or if no investments are made in the operation, it sets the next generation behind.

"An operation needs some institutional memory, but it also needs some new ideas," Kohl observes. He gives the analogy of putting a pup with an old dog.

"Either the energy picks up, or it kills it — the same happens in an

operation. So find a balance with new and old," he says. **AJ**

Editor's Note: David Kohl shared comments with South Dakota ag producers in September 2017. Kindra Gordon is a freelance writer and cattlemaster from Whitewood, S.D.

Additional management maxims from David Kohl

- Become 5% better in three areas of your business. Kohl credits his colleague Texas A&M's Danny Klinefelter for coining the term the "5% rule." It stems from numerous studies that have found sustained success comes from doing several things 5% better as compared to doing one thing 100% better.
 - If your mind-set is to grow the operation to a size where the financial return will hopefully solve the problems, Kohl says, "That is the wrong approach." No matter what size you are, you must recognize the problems and resolve them.
 - Regarding expansion, Kohl says make sure it is consistent with your core values. He says, "Have a strong working capital position [if you expand], because it'll cost 25% more than you think."
 - How you manage profits in the good years sets you up for how you'll manage in the down part of the cycle, believes Kohl. He advocates knowing your costs by enterprise (corn vs. hay vs. calves) and suggests making year-to-year comparisons. If you are looking at cutting costs, he suggests, "think through unintended consequences" before you do.
 - Focus on four cornerstones for success: plan, strategize, execute, monitor. Kohl is an advocate of spending 5%-7% of your time in planning for the business and an equal amount of time monitoring. As an example, he suggests monitoring financials every two weeks.
 - Producers should look at themselves as coaches, according to Kohl. He suggests: "Look at the game conditions and make adaptations during the game. You are the coach of your business. Don't wait until the end of the year to make adjustments."
 - Regarding strategies, he says, "Prioritize your priorities." He notes that people end up spending most of their time on \$100 decisions, when they should be spending more time on the \$1,000 and \$10,000 things. To help with priorities, he suggests making two lists: one of the things you are good at, and another of the things that could be done better. "You can't hire it all out, but recognize someone might be able to do some of those tasks better," he says. As an example regarding taxes, Kohl says, "I have Ph.D. behind my name, and I don't do my own taxes. I can use my time, effort and energy in other places to get a better return."
 - Another strategy: Kohl likes to have 10%-20% of a business's assets in cash. "Having cash gives you flexibility," he says. "You can jump on opportunities. Success in business is often a matter of timing."
 - People and profits go together. "Your net worth on your balance sheet and your net worth psychologically will be related to the network of people around you. Eliminate the ones who draw you down," says Kohl. He also emphasizes you've got to work side by side with your lender and team (spouse, children, employees, etc.)
 - Set goals — and write them down. Kohl is an advocate of writing one-year and five-year goals in the categories of business, family and personal. He suggests each person write their own separately and then each share them with the family and discuss.
 - What do top producers do that bottom producers don't? They plan, monitor, go to educational programs, work with their team and keep records throughout the year, lists Kohl. Conversely, he's found commonalities among the bottom-performing producers are that they get emotional, deviate from the plan, don't train the next generation and scramble to pull their financial records together at the last minute.
 - Looking ahead, Kohl anticipates big agribusiness will have trouble the next four to five years. Why? The food business is splintering, he says. As examples, he says an array of custom markets with consumers wanting more local processing is emerging: some want milk in a glass bottle; Delta airlines wants non-GMO pretzels. Regarding the GMO and non-GMO debate, Kohl says, "There's a place for both, and I believe we should let the marketplace dictate it." However, without GMO crops he indicates "you are pro-starvation."
- Finally, regarding tips for estate transfer, Kohl says, "Get to it early. It will take five years. It's not only the transfer of assets. It's also teaching management skills and determining the roles everyone will play. If you don't get a plan, there are only two winners: high-priced lawyers and Uncle Sam." Additionally, he encourages families to write, and share, their family history. "If you want to continue the family legacy, it can be a good tool for succession planning," he concludes. **AJ**

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