Think About 'The Biggies'

With market volatility becoming the new normal, business management becomes even more critical.

by **KINDRA GORDON**

If you manage an ag operation, where do you spend the majority of your management time and effort? Dallas Mount, a University of Wyoming livestock extension educator, proposes that many managers spend too much time worrying on the minor things and not enough time on what he calls "the biggies."

As an example, he points to a ranch that puts up hay, has a cow herd and grazes some calves to yearlings.

"I asked the head of the ranch to look at his or her calendar over the past year and examine where they spent their time focusing on issues of 'management concern,'" Mount says. "Their top five items were: personnel management (dealing with problems); genetic selection for cow herd; deciding on equipment purchases; researching alfalfa stand renovation options; and negotiating a pipeline right of way."

He asks other producers to think about what their own list would look like and asks, "Are these the right things?"

To plan for the future, Mount proposes that farm/ranch managers make a list of what the five greatest

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management challenges are for the ranch looking forward.

"The answers will be different for each ranch or farm," he says. "The key is you have to ask yourself if you are spending enough time and energy on areas with the greatest benefit to the business."

To illustrate this he says, "Does it matter what breed of bull you buy if the cow herd is losing $150 per cow because your winter feed costs are way out of control? Does it matter what type of hay rake you purchase if your hay business has a negative return of –$50 per ton of hay harvested?"

Mount continues, "We are all guilty of it. We enjoy certain aspects of farming and ranching and either have difficulty with, or don't like, other important aspects. However, these other aspects can be some of the biggies."

Mount suggests having a meeting with your ag business team and discussing what actions you can take to see that these issues receive the management time they deserve.

"Perhaps there is someone else on your team who has been waiting for the opportunity to take on one of these biggies that you have been avoiding," he says.

Focus areas

As volatility becomes the new normal in the ag industry, management becomes even more crucial to harness profitability. Mike Boehlje, a Purdue University ag economist, suggests several areas that farmers and ranchers should spend more time addressing in their quest for business success.

1. Improve risk management. We're going to hear more and more about risk management and risk-management tools, from lenders, business advisors and even politicians as the Farm Bill debate heats up and the economy flounders, says Boehlje. He also emphasizes that when it comes to risk management, the goal is all about protecting margins and cash flow, not about maximizing prices.

It's not going to be enough just to say you have a risk-management plan, Boehlje says. "You must have a written plan that includes action triggers and your overall strategy. In the future, lenders want to be able to track performance so, if goals are missed, they can determine how close you came to meeting the targets, or be able to adjust your plans and strategies as needed."

2. Examine technology adoption. Boehlje indicates new technology can be an asset that helps simplify procedures and processes. For example, he suggests considering any number of computer programs that track feed and feed delivery, animal identification that meshes with health and reproductive programs and herd management software, or other management tools that cut down on repetitive or inefficient actions.

"Your objective is to search out those technologies that offer improved task precision, that enhance management information or offer better process

More management advice

As another piece of advice, Purdue economist Mike Boehlje emphasizes to farm and ranch managers the need to carefully manage borrowed capital.

The Federal Reserve may have signaled that it will hold interest rates to near-zero levels until mid-2013, but that doesn't mean you shouldn't use caution when it comes to borrowed capital, Boehlje says. "We've been in a cheap capital market, but it still makes sense to lock in the lowest interest rate poscontrol — and also make economic sense for your operation," he says.

3. Plan for business growth. The old business growth model was operations-centered; it featured hands-on management with a hierarchical command and control structure and little need for interpersonal skills, Boehlje explains. For business growth, focus on a team approach that depends on leadership and delegation and requires open access to information so that the right messages and incentives are delivered to the entire team, he suggests.

4. Improve operational efficiencies. For a farm to be successful over a long period of time, it must respond rapidly to competitive and market changes, benchmark to achieve best practices, and establish a few core areas of strength. To do that, you must work to improve your operational efficiencies, like the use of standard operating procedures that help you focus on product quality and consistency, says Boehlje.

In addition to these strategies, Boehlje emphasizes the need for flexibility by managers. He says, "Today's top managers run lean operations. That is, they focus on their core operations and search for ways to improve on existing competencies, yet remain flexible in options and management. These individuals choose carefully what they are going to pursue and, maybe more importantly, what they are not going to pursue."

In addition, it is critical to understand that the business climate for agriculture is increasingly shaped by forces outside the industry. Think globally, he recommends.

Ultimately, however, exploring these tactics doesn't matter if you don't act on them. "Execution is the key," says Boehlje. "The difference between those farmers that are successful and those that are less successful has less to do with strategy than execution."

sible on term debt. The prediction is for a 4-percentage point increase by later this decade."

Furthermore, he suggests that you take advantage of higher commodity prices to pay down debt if you are highly leveraged. Focus efforts on building working capital reserves and rebuilding equity.

"It's a worthwhile exercise to explore what would happen to your business if interest rates were to double in the next five years so you can plan ahead," he says.