

Farm and Ranch Management

Top 10 things learned in farm management career

Analysis



BY MARK HOLKUP

AS I near retirement, I find myself reflecting on some of the things I've learned during the past 35 years working in farm management.

Markets cycle. Markets always have, and they always will. We will have some really profitable years and some really bad ones and every shade in between. Weathering the down cycle will depend on crop yields, efficiencies, financial strength and your ability to do a little bit better job of a few things than the competition.

Some of life is luck. "Luck" I would

Key Points

- There are lessons to be gleaned from farm management career.
- No. 1 lesson: Markets always cycle, and you can't control them.
- Key is how you react to markets and the luck that comes your way.

define as "random circumstances that happen over which you have no control." If I get an inch of timely rain and across the road you get ten-hundredths, that is luck. Nothing I do changes the amount of rain I receive. People say you make your own luck, which is silly. You do not make random circumstances happen that you have no control over. You do, however, make your life experiences using whatever random circumstances happen to you. If because of the extra rain I got 5 bushels more wheat than you did, but sold my

grain for 30 cents per bushel less, you may still make more money than I did. We don't control the market, but we do control how we react to it. Some may be luckier in their reactions, and some may have a sounder marketing strategy.

Pay taxes! Regardless of your thoughts on the tax system, taxes exist. Work within the system to legally limit your tax liabilities. My rule of thumb is your adjusted gross income should at least cover your family living and income tax draw each year. Generally, we avoid taxes by deferring them until a later date, but good tax management will certainly minimize your tax liability. If you want to avoid paying taxes altogether, you should avoid a profit — obviously a bad idea. Cheat, but remember if you are really profitable, that means a whole lot of cheating, which means a strong chance of getting caught. Do you want to be the richest person in the entire prison? Has an ugly ring to it, doesn't it? The third way is to die. At death my children get a stepped-up basis on our land. I don't know about you, but the assets my wife and I have accumulated we want to spend in retirement enjoying life. Our kids will inherit what is left, but I won't live as a pauper to avoid giving money to the IRS! If we buy machinery we need and can afford, we get a tax deduction. Buying machinery to get a deduction has it backward. Successful people generally pay a healthy amount of taxes. No one enjoys it, but it comes with the territory.

Live within your means. It's a simple equation; you can't spend more than you make. Don't set your spending by what your neighbors do. They may well not be able to afford their lifestyle either. A business needs profit to be large enough to pay family living and retire debt. The more debt we have, the more profit we need to generate to service that debt. Often businesses that do not survive have unrealistic expectations of what family living the business can support.

Learn to understand your business. A well-kept set of farm records not only provides you with information for taxes and your lender, but more importantly provides information for you to understand your business. Your numbers are always telling you what to do; you just need to understand what they are saying. If your records are speaking a different language than you are, you have a problem. The time spent managing your business is

likely the highest paid salary you receive.

Maintain working capital. If you have a strong working capital position, you can weather many difficulties. Think of working capital as "at year-end after all grain/livestock are sold and payments are made, what do we have left?" It can be payments toward next year's expenses, grain left to sell or cash on hand. What "surplus" do we have? A strong working capital position can bail you out of a shortfall situation, or it can allow you to pay off a loan to make next year's plan cash flow easier.

Maintain a strong balance sheet. Work toward being the "majority shareholder" in your business. The larger the share you own, the more say you have in running your business. The larger share your bankers own, the more say they have. Take your total farm liabilities and divide it by your total farm assets and you get the percent of your business the bankers own. If they are majority shareholders in your business, they will be more active in the management of your business than either you or they would like to be. Debt is not a bad thing, but debt you cannot service is always bad. How do you prepare for tough times? Get your balance sheet in order.

Cash flow is king. If the business cannot meet all required payment obligations and family-living draws, your banker cannot lend you money. As prices drop, often the only way to service debt and family living is to have a much better than average crop yield. This works well when nature agrees to help. The concept doesn't work as well for the cow-calf producers who likely can predict within a small percentage the pounds of calves that will be sold each year. Cash flow is the password to get into the game of farming!

Communicate with your family, employees and lenders. Let your banker know early if you are going to be short. They have experience and may be able to help you find alternatives. Family living draw is a tough area to discuss, but if both spouses are on the same page, it is always better. Communicating to employees the need for watching all farm expenses in today's environment is very important.

Minimize risk. As farmers we tend to add risk to our business by storing crops too long waiting for better prices. Often we "double down on the bet" by hauling last year's crop to town, putting it on storage and putting this year's crops in the bins. We now have twice as much risk. Ask yourself, "Do I really think the price is going up, or do I just really want it to?" The more difficult the times, the more important it is to limit risk! Crop insurance is a way to limit risk, but marketing can also be a way.

Holkup is a North Dakota Farm Management instructor located at Bismarck State College.



**CONSERVATION
TILLAGE
CONFERENCE**

December 13-14, 2016 • Fargo, ND



NDSU EXTENSION
SERVICE



CTC



UNIVERSITY OF MINNESOTA
EXTENSION

Save the Date!

December 13-14, 2016

Hilton Garden Inn • Fargo, ND

This is one of the most comprehensive conferences in the upper Midwest on using conservation tillage and cover crops to improve soil health. Information is delivered to attendees using farmer and industry experience paired with research results to make the information practical and usable on-farm. We are all about relationships - so come meet some new people that share an interest in soil health.

For more information visit **DIGtheCTC.com**

All rights reserved. University of Minnesota Extension and the NDSU Extension Service is an equal opportunity educator and employer. In accordance with the Americans with Disabilities Act, this material is available in alternative formats upon request. Direct requests to the Extension Store at 800-876-8636. Printed on recycled and recyclable paper with at least 10 percent post consumer waste material.