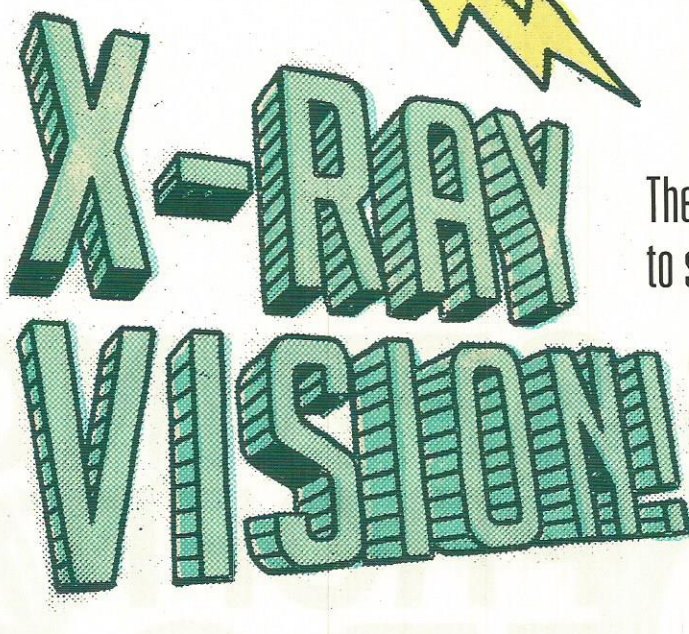


COVERSTORY



The skills you need
to see a profitable future!

By Bryce Knorr

If you think what you don't know won't hurt you, think again. With profit margins under attack in 2014, top-flight management skills could spell the difference between success and failure.

New *Farm Futures* research shows a clear connection between financial performance and business acumen. Farmers who master these challenges, from dealing with people to understanding balance sheets and markets, are far more likely than average to enjoy outstanding long-term profitability.

"A high percentage of farmers flunk badly in adoption of commonly accepted best business management practices," says *Farm Futures* contributing editor Dick Wittman, a farmer and financial consultant from Cul de Sac, Idaho.

That doesn't doom your operation to an auction of rusted equipment and worn-out buildings. Some farmers without a professional skill set do just fine. But in an era of skyrocketing rents, expensive equipment and costly inputs, just making do may become harder and harder — especially if crop prices are headed lower.

"As we go back to tighter margins and more profit pressures, the better managers are increasingly going to have the ability to successfully manage the financial rapids they're going to face," notes Purdue ag economist Michael Boehlje.

So what tools does it take to keep at the top of your game? Both Wittman and Boehlje created tools farmers can use to assess their strengths and weakness. We've included both in our farmer surveys, which showed those who adopted the most management practices also were the most likely to stand out in the top 15% of high-profit farmers — those with the best income and return on equity.

Wittman devised the 32-point Farm Management Proficiency Test he's used

lack of adoption of professional management practices," he notes. "They often don't know what they don't know until they have an epiphany, and clearly see where their management processes need enhancement. The professional adopters then grab these epiphanies and systematically begin a course of implementation that often sets them off in a new stratosphere of top performers."

Some producers "see the light" at management conferences, like the *Farm*

"Top-performing farmers are often successful financially in spite of their lack of adoption of professional management practices." — Dick Wittman

with farmers for more than a decade. The test measures adoption of practices covering management systems/personnel administration, financial management and marketing/risk management.

We gave it to producers in 2005 and again this summer. This year's research showed those at the very top of the top were more than three times more likely to achieve high profit returns.

Still not convinced? That doesn't surprise Wittman.

"Top-performing farmers are often successful financially in spite of their

Futures Management Summit, which takes place Jan. 7-8 in St. Louis. (For more on the summit, see page 30.) Purdue's Boehlje, a favorite speaker at these events, says the first step toward a conversion is to inventory your own strengths and weakness.

"The first thing to do is to be honest in a personal assessment of what your skill set really is," Boehlje says. "In many cases, I think farmers do struggle with that."

Purdue's tool includes sections on finance, production, procurement/selling, personnel, strategic positioning, risk and relationships/leadership.

Good news, bad news

Farm Futures in August gave Dick Wittman's Farm Management Proficiency Test to 500 farmers, who also provided detailed information on their business finances. The survey produced some surprising, and not-so-surprising, results.

■ Most of the farms surveyed, some 81%, prepare annual balance sheets and income statements, and two-thirds allow measurement of accrual-based income and deferred tax liabilities. But only 22% calculate key financial ratios and track historical trends.

■ Progress on employee supervision is also sketchy. Though only a third of *Farm Futures* readers have full-time, year-round employees, more than 60% use at least part-time on a seasonal basis. Yet few of these farms have written personnel policies, document standard operating procedures, or match pay to experience and market conditions.

■ And after several years of rising prices, some producers' marketing practices also need a tune-up. Two-thirds of the growers we surveyed will use only cash sales after the 2013 crop is harvested. Only 45% said they understood forward contracts, hedging and options, and used them as marketing tools.

Boehlje says different farms may emphasize different skills. A farm with no employees may not see personnel management, for example, as a top priority. But even seemingly irrelevant skills can't be ignored.

"A farm that doesn't have any employees probably doesn't have to have quite the same kind of personnel and human resource management skills, although they still are important because those kinds of skills involve managing not just your workforce, but managing your relationships with family members and managing your own time."

Likewise, a loan agreement, production contract or rental arrangement may come up only once a year, but good negotiating skills can get the terms right for both sides.

"You can't let those skills atrophy," Boehlje says. "The relative importance of various types of skills is going to be different for different types of operations, but you have to be careful you don't ignore skills that may be only important once a year."

And even if you farm alone as a sole proprietor, you still need expertise, says Boehlje: "One person can't do it all, but at the same time that doesn't mean it doesn't have to get done."

A methodical approach to improving management skills can help, according to Wittman.

"We must be more specific in describing what is professional management," he says. "Whether it is Boehlje's checklists, or my proficiency test or another device, the detailed questions very clearly break-down the parts of the management engine that need to be put under the microscope. It's not enough to say, 'Your management process stinks!'"

"When folks put a label on specific practices, examine the consequences of not having these in place and envision the benefits to the business of putting these into practice, behaviors change," Wittman says. "And performance often changes for the better."

The end of any year is a time to take stock. Faced with an uncertain outlook in the year ahead, 2013 could be the ideal time for some real soul-searching about your abilities to manage in a new era of tight margins and reduced prices. **ff**

Farm Futures Now!

We've put management questionnaires developed by consultant Dick Wittman and Purdue's Mike Boehlje online, along with results from our surveys. Go to www.FarmFutures.com and click on *Farm Futures Now!*

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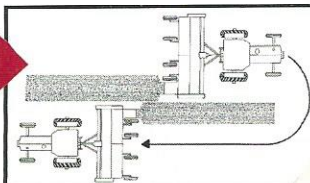
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