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Wisdom for Charting Your Course in 2026 and Beyond

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Traveling through more than 30 states and engaging with individuals at all levels of the agriculture sector provides a unique vantage point into both the economic landscape and the emotional pulse of the industry. Grain, row crops, and some specialty crops are experiencing a global competitiveness downturn, particularly among operations with non-diversified revenue streams. At the opposite end of the spectrum are livestock enterprises, especially beef, with diversified revenue sources and solid profits for well-managed businesses.

Given growing geopolitical uncertainty, tariffs, sanctions, and increased competitiveness from the BRICS nations (Brazil, Russia, India, China, and South Africa) and the Global South more broadly, what wisdom and perspectives must agricultural businesses focus on for the future?

Ownership of the Numbers

Whether it is an agricultural business, a personal household, or even to some extent government, disorganized records and financials combined with complacency are business and financial killers. We often hear producers say that they must assemble their financials for the bank and for loan approval. The Paul Harvey, “rest of the story” question is: **Do they use those same documents for management, execution, and monitoring of performance?**

Bar Napkin Approach

Those who operate larger, more complex entities will often secure the services of accountants or CFOs. The question then becomes: do they know where the business stands at any point in time? Given the information available, what business and financial metrics can be used to benchmark performance over time and against peers?

The key is to move from simplicity to complexity. Too often, there is information overload, one is drowning in data but starved for organized, decision-ready information. In my years as

an educator and business owner, there is an old saying: **if you can't communicate your business and finances on a bar napkin, then they're too complex.**

The bottom line is that financials may be required by the bank for loan purposes, but knowing and understanding them can also make you a better manager.

Cash Flow Planning

A cash flow plan that is monitored frequently throughout the year is no longer optional but is a requirement in today's world of volatility and extremes. The key to cash flow planning is incorporating "what-ifs" or sensitivity testing around:

- Production
- Prices
- Expenses
- Interest rates

This process provides the guardrails needed for more objective, rather than emotional, decision-making. In our creamery, one of the best management practices has been the weekly cash flow review, where owners, managers, and key advisors analyze results and adjust tactical actions throughout the year.

Key metrics we track include:

- Revenue and expenses by category
- Revenue compared to projected estimates
- Balances of accounts receivable and payable
- Any draws on lines of credit
- Cash position (critical)
- Labor cost (one of our largest expenses)

The Lender Relationship

A critical piece that is often overlooked in both opportune and adverse times is the agricultural lender. Agricultural cycles can bring out the best and the worst in both the producer and the lender. In good economic times, it is very easy to put the pedal to the metal for business growth as well as expansion of the lender's portfolio. In some cases, complacency sets in. This includes not tracking and monitoring quarterly or monthly cash flows, failing to update the balance sheet, or neglecting to follow a marketing and risk management plan.

Lenders can also fall into the trap of relying on land equity and quick credit scores, using a transactional rather than a relationship-based approach. When adverse times arise, neither the producer nor the lender truly knows the financial position, which limits their ability to navigate downturns, which is a critical capability. During these periods, one often observes mergers and changes in lenders, loan committees, and financial review teams, which intensify the rigor of review.

The 6 C's of a Quality Lender

Your lender must pass the test of the 6 C's.

The first three C's (Technical Skills): - Your lender should possess a strong ability to:

1. **Calculate** - Calculate the numbers accurately.
2. **Critically Think** - Take the time to think critically about the results.
3. **Collaborate** - Work side-by-side with the producer to build a plan that not only generates but also preserves earned net worth or wealth.

The lender should discuss the numbers and any potential nonfinancial factors or negatives in customer speak rather than lender jargon. For example, lenders often use the current ratio to assess liquidity, while producers typically understand working capital to expense percentage. A 25 percent metric, for instance, means the business can operate for roughly 90 days on its liquidity.

The final three C's (Character and Partnership):

4. **Conservative** - Is the lender conservative in the good or favorable economic times by requiring monthly or quarterly cash flows, documenting risk in written marketing plans, and not simply making loans based on land equity?
5. **Courageous** - Is your lender courageous in the tough times? This often requires the lender to work with other lenders and government agencies or to have a plan that is monitored and steadily moves the business into the black.
6. **Consistent** - Consistency is crucial in an emotional and volatile economic environment. This is where trusting relationships are tested, and both the producer's and the lender's character are put to the test. Reputations are made or destroyed during these adverse periods, which can last for decades.

Earns and Turns

The profit equation, ROA or Return on Assets, comes down to net income margin multiplied by capital turnover, or the efficiency in asset use.

Example: if your net margin is 5 percent and you generate \$1 million in revenue on \$2 million in assets, the rate of return on assets is 2.5 percent.

If one sheds unproductive or underutilized assets such as machinery, equipment, or undesirable land, whether owned or rented, efficiency improves, and the bottom line will often increase as well. This is where an advisor such as your farm management instructor, a trusted lender, or in some cases a peer can be invaluable in asking the critical questions that lead to crucial conversations.

Family Living Budgets

Yes, inflation is impacting family living budgets, with increases in:

- Insurance
- Real estate taxes
- Child and adult care
- Medical costs

A separate business and household budget, with the goal of reducing commingled expenses, can provide perspective on true living costs. Another element to consider is the number of families living out of the business or taking withdrawals. Excess family living withdrawals, whether in a farm operation or a Main Street small business, can be a major culprit that creates financial liquidity problems in both the business and the household.

Net Worth Vs. Self-Worth

A key piece of wisdom from the deflating balance sheets of the 1980s was to never equate your net worth with your self-worth. Inflated land values and the pursuit of more acreage can boost the ego almost like an addiction. When those values decline, the emotional high can quickly turn to the dark side, impacting spouses, children, partners, stakeholders, and the broader social and community network.

There is an old saying: **“Don’t get too high in the highs or too low in the lows.”** You need to seek balance. Your physical, mental, and spiritual health must be a top priority. Surround yourself with a strong support network that can provide positive messages or critical reminders that help keep life in perspective.

