

Cup Half-Full Economics

By: Dr. David M. Kohl*



During the last two to three months of 2008, farm and ranch communities felt escalating financial tensions. This was due to declining commodity prices; bailouts for Wall Street, large banks, and auto makers; and the official announcement of a U.S. and global recession. In certain sections of rural America, bids on land were well below asking prices, and land buyers seemed to be running for the hills to avoid declining land values, similar to stock prices and urban and suburban real estate values. I disappointed an East Coast metro newspaper reporter when he asked me, "What is the biggest surprise you saw in 2008?" My response was simple: Change in the economic picture occurred so quickly and at extremes. That sums up 2008, launching agriculture into 2009 and preparing for the second decade of the 21st Century.

There is no doubt American agriculture is coming off one of the longest and most positive super cycles in the past century. There have been three previous super cycles, in the teens, fifties and seventies; however, this cycle was the first to represent the convergence of metals, oil and agriculture with high demand and escalating inflationary prices. The result was long term decision-making on short run profit expectations, which is an economic cocktail that can create a business hangover. Economic carnage from the Wall Street meltdown and urban and suburban real estate bust are testaments to the lasting effects of bubbles in the general economy.

There is no doubt the global economy is in a synchronized slowdown. Stimulus packages offered by major world economies are attempting to pull the global economy out of a tailspin not seen since the Great Depression. The United States economy will likely be in a protracted recession with business and personal bankruptcy and unemployment on the rise, particularly in the first half of 2009.

While this describes the cup half-empty, what are the new economic engines and business acumen needed to turn the tables to a cup half-full scenario? Biotechnology, natural resource management, innovation, and managerial competency can be the engines to spur the next decade of economic growth. This places agriculture and rural areas at the front and center of the turnaround. Stimulus packages for infrastructure must be focused toward the future and recipients of the stimulus must be held accountable. Personal accountability and economic moderation will be *en vogue*.

As an ag lender, here are some characteristics to look for or cultivate in key agricultural borrowers. They will be critical to position ag businesses to capitalize on the vast number of opportunities that will present themselves in this crazy economic environment. Key borrowers should:

- Be Selective: Opportunities in agriculture will abound regardless of size, location, age, and business model. The consumer will drive the business model in an environment of five-dimensional agriculture. This includes food, fiber, fuel, products for the life sciences, and life experiences. A key for taking advantage of

opportunities goes back to a quote by Dean Smith, the former University of North Carolina basketball coach, about his philosophy for recruiting basketball players. Instead of recruiting players, he selected them. This philosophy can be applied to business in the next decade. Farmers and ranchers need to be very selective of business opportunities to ensure they are consistent with business, family and personal goals, and they align with the trends of the future marketplace.

- Boost Liquidity Levels: While working capital levels of 15 percent of revenue or expenses were sufficient in the past, boost these levels to 33 percent in the current environment. This is particularly important if the business is in a growth mode or planning to take advantage of opportunities.
- Use a Business Plan: Writing a sound business and marketing plan will not be an option, but a requirement. Producers should conduct scenario testing beyond the best, average, and worst case scenarios. Five to twenty scenarios may be necessary to anticipate extreme revenue and cost volatility. These scenarios can be used to develop strategies, actions, and measurements to tweak the business as conditions change. Remember, a business plan is a living document, not to be filed away after gaining access to credit.
- Analyze Financial Trends: Producers who conduct a trend analysis of financial information are aware of which direction they are headed. Lenders should be looking for positive trends in cash flow, earned net worth and equity growth, liquidity, and overall profitability. If a producer has a financial hiccup, he or she should keep communications open with lenders and partners so proactive strategies can be put in place. This next decade could be particularly rough on the millionaires on paper who have never earned a dollar. That is, like the general economy, inflation and appreciation of assets can submerge mistakes in personal financial accountability and management. In an era of possible deflation or slow appreciation where cash is king, these individuals will be exposed, resulting in being charged higher interest rates or being rejected for credit.
- Think Globally, Act Locally: A final piece of advice is to keep your head up, thinking globally; however, apply global thinking to the local area and specific business. Producers who network with a positive set of peers and advisors who will provide them critical feedback on strategies and actions are more prepared to capitalize on opportunities.

Yes, even while being an optimist life will occasionally throw you lemons, such as these economic times. Your task is to turn the lemons to lemonade with superior business acumen and an environment of positive thinking and accountable actions.

*Dr. Kohl has served as a top-rated instructor at GSBC since 1992. He is President of AgriVisions, LLC, a knowledge-based consulting business providing cutting-edge programs to leading agricultural organizations worldwide. For 25 years, Kohl was Professor of Agricultural Finance and Small Business Management and Entrepreneurship in the Department of Agricultural and Applied Economics at Virginia Tech University, Blacksburg, Virginia. For more information on the author, please visit [GSBC Faculty Biographies](#).