

The Growth Metric

Remove emotion and focus on facts during expansion decisions

By **Sara Schafer**
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Business growth of any kind offers risk and rewards. Perhaps you'd like to bring a child back to the farm. Or, you could pick up another 200 acres this year. Or, someone approaches you about a collaborative farming partnership. These opportunities are often overrun by emotions and can require fast decisions.

"Farmers have historically felt like we need to grow, but most have a reactive — not proactive — strategy for growth," says Dick Wittman, a family business consultant and Idaho farmer. "This causes serious consequences to the business. Far too many growth discussions are not focused on a thoughtful strategic plan for growth, nor do they

have a defined metric for determining the optimal rate of growth."

To evaluate if your operation should expand, calculate your sustainable growth rate. Put simply, this metric shows the maximum rate of growth a farm can maintain without increasing financial leverage or obtaining outside financing.

"Financial leverage will allow you to grow faster, but it also increases your business risk," explains Michael Langemeier, Purdue University ag economist. "Your sustainable growth rate lets you figure out how fast you can grow your farm if you didn't borrow money."

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Track Equity Changes

"One of the most important exercises farmers can do is to determine why their equity is changing, Langemeier says. The two sources of changes in equity include:

- ▶ Retained earnings.
- ▶ Growth in land values.

"Once you have the appreciation of land values separated out and know its contribution to growth in equity, you can focus on retained earnings," he says. "Your retained earnings are what increase your sustainable growth rate."

Many financial metrics are historical, but this metric is important for the future, Langemeier says. By tracking it annually, you can project real numbers for decisions around any form of business expansion.

Involve your lender in calculating and monitoring this metric. He or she can help you use it or a similar formula to understand the ramifications of business growth. **TP**



To find a list of the 10 questions to ask before growing your farm, visit [AgWeb.com/growth-questions](https://www.agweb.com/growth-questions)



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3 Ways to Address Debt During A Black Swan Event

By Chris Barron

Every so often an event occurs that is completely unpredictable and out of our control. The coronavirus (COVID-19) is the absolute definition of a black swan event.

This situation has crushed markets, created massive volatility and caused a tremendous amount of fear across the globe. What does all this mean for the future of your farming operation?

Few, if any, operations have business contingency plans to accommodate the level of economic problems we might deal with in the foreseeable future.

Plan, Don't Panic

In times of difficulty, it's critical to stay focused on what you can control and try to ignore the outside noise that could distract you from making deliberate and effective business decisions. Stressful economic periods often present tremendous business opportunities.

As we move through this year, your biggest opportunity for future business growth might be restructuring and refinancing your debt. Here are three components to consider in this process.

1 Interest Rate Reduction. This opportunity is correlated to your ability to illustrate the quality of your operation as a borrower. Is your debt repayment capacity clearly reliable and structured with sufficient collateral? Detailed information such as cash flow projections, comprehensive multiyear trend analysis, accurate market value balance sheet details and a written business plan

has a direct impact on the lenders' willingness to lower rates.

2 Debt Restructure. Consolidating short and intermediate debt into a longer-term payment schedule can allow your business additional financial flexibility and risk tolerance. By stretching your payments out over a longer-term and lowering debt repayment requirements, your working capital can improve and be used as the business environment changes along the way. Just because payment schedules are lowered annually doesn't mean you can't payoff the debt quicker. However, in the current environment a stronger working capital position might be important especially in the near future.

3 Comparative Analysis. Always look for additional lender perspectives when analyzing your interest rates and restructuring debt. When you have your financial information assembled for your current lender, duplicate it and present it to one or two other lenders. You might not change lenders, but it allows you to do your due diligence and reassure yourself you have the best debt structure and financial planning for the future of your operation.

Through proactive planning, we will survive this and be stronger in the end because of it. **TP**

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THE THEME...A NEW YEAR...**GET YOUR TOOLS IN PLACE!**

ARTICLE #1: SUSTAINABLE GROWTH RATE

A. FOLLOWING THESE RULES, YOU WOULD HAVE RETIRED IN 1952 fwiw

B. THIS IS AGRICULTURE – WHEN DO YOU WANT TO GROW?

DURING TIMES OF FINANCIAL DISTRESS!!!!!!!

THIS INDICATOR IS NEGATIVE AT THOSE TIMES!

**C. THUS, IN THE VIEW OF THIS LUNATIC ARTICLE, YOU COULD GROW
FASTER IN 2012, MORONIC....**

**WE SHED 1000 ACRES IN OHIO IN 2014....WE WALK THE WALK
WE ADDED 1200 ACRES IN 2020**

OUR SUSTAINABLE GROWTH RATE IN 2020 IS NEGATIVE

D. KNOWLEDGE OF COMMON CYCLES IS DEAD....LONG LIVE THE CYCLE.

ARTICLE #2: DEBT DURING A BLACK SWAN EVENT

A. CHRIS IS A NICE GUY....BUT IS NOT A FINANCIAL GENIUS.

YES, LOWER THE RATES, RESTRUCTURE, SHOP AROUND, FINANCE 101.

B. THIS IS NOT A BLACK SWAN!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

**THE MOVIE THAT WON THE OSCAR IN 2019 WAS ABOUT A CONTAGION.
THE MOVIE "CONTAGION" CAME OUT IN 2011...A PERFECT FORETELLING.
THIS HAS BEEN MODELED FOR DECADES AT THE CDC. DECADES.
EVERYONE KNOWS IT COULD HAPPEN AT ANY TIME
EVERYONE KNOWS WE WERE WAY OVER DUE FOR IT TO OCCUR
THIS IS LIKE SAYING AN EARTHQUAKE IN CALIFORNIA IS A BLACK SWAN...
SORRY, JUST TIRED OF SUCH STUPID LOGIC.
JUST BECAUSE THEY DID NOT PLAN FOR IT, DOES NOT MEAN IT WAS
AN UNFORSALE SWAN....BLACK OR PINK.**

C. OK, DOES ANYONE BESIDES ME NOTICE THE 4TH, UNMENTIONABLE, WAY?

**GROWTH!!!! GROW!!! REDUCE OVERHEAD/UNIT
SPREAD PRINCIPAL PAYMENTS OVER MORE ACRES**

THE REQUIRED DISCLAIMER: (While this is obvious, we have been advised to add it.)

- *Farming involves risk of loss and gain*
 - You can make or lose more than your initial investment
 - Just ask a hog or dairy farmer! OR a grain farmer in 2016
- The information and strategies discussed today are **certain to produce losses** at some point in the future
 - Reducing risk is never free and the word CERTAIN is carefully chosen!
- Managing risk requires the taking of risks, risking even more than your initial capital.
- No thoughts expressed in these documents are intended for people or entities that are not farmers
- Any and all actions taken by you, are your responsibility.

A futures account is not required **nor is it recommended.**

AND REMEMBER...if you follow our approach you WILL lose money sometimes.

Freedom is only found by a man or woman when they make their own decisions and take responsibility for the outcome.