

News Release for Immediate Use or Next Issue
Rebecca Zach, Extension Agent: Crop Production
River Valley District
10/13/2020

Farm analyst develops ‘Eight Knows’ from years of working with farm families

Duane Hund spent a recent, beautiful fall day much as he always does, talking with a farmer about his costs of production and expense-to-income ratio. Not exactly light coffee shop talk but something Hund has done most days for the last 36 years – working with Kansas farmers to improve their operation’s bottom line.

As director of the Farm Analyst program at Kansas State University, he works confidentially with farm families to help them determine how to make their businesses more profitable, the best way to pass the farm to the next generation, and sometimes the least painful way to sell it. His calm demeanor and in-depth understanding of farming and balance sheets make even the hard questions easier to address.

It is work that Hund, who will retire early next year, knows that he was meant to do.

“One of the most challenging parts of my job over the years has been to work with farm families in the aftermath of dealing with poor estate planning or the lack of putting a good plan in place when mom and dad were still here,” Hund said. “Some have lost farms because of poor planning. It’s really sad.”

Along with the usual challenges of unpredictable weather and fluctuating commodity prices, farmers currently are experiencing the implications of trade disputes and the far-reaching effects of the coronavirus on food production and consumption, and the economy in general.

The work is rewarding, Hund said, because he and others in the Farm Analyst and other programs have helped so many producers turn difficult circumstances into positive situations. Through the years and countless – sometimes emotional – conversations, several themes surfaced over and over to the point that Hund came up with “The Eight Knows” he believes all farm families should think about. They include:

1) Know your resources. That includes what the farmer and family members are passionate about. He gave the example of an adult son who joined his father in a farming operation. The two conflicted with the direction to take the business – enough so that the farmer’s wife asked for Hund’s help. In discussions, it became clear that the father had a passion for growing crops and the son’s greatest interest was in livestock. Once they talked through it, they made successful adjustments and became a more diversified operation.

Also consider soil types, irrigation, market access, machinery and equipment, operating capital, and education, including continuing education.

“Farmers sometimes feel beaten up by low prices and other factors,” Hund said. “Knowledge is the basic that we need to sometimes retool. A farm business should budget from 0.5% to 2% of its annual gross revenue for continuing education, including seminars, newsletters, and community college or other classes. Hog and dairy farms are examples of operations that have had to rethink how they operate.”

2) Know your costs of production. If dollars spent equal or exceed the revenue received, the business may be a “lifestyle.” If it produces a profit, it’s a “business,” Hund said. “A lot of farmers have a rough idea of what their input costs are but don’t always think about the cost of paying themselves and that’s where their family living expenses are coming from. Wheat

margins in eastern Kansas, for example, have grown much thinner.” Sometimes when Hund works through the numbers crop by crop, producers are surprised to see how much less profitable certain crops have become in recent years and switch to other crops.

“The corn belt has moved south and west from where it used to be,” Hund said of many farmers’ switch to corn and other crops and away from wheat.

3) Know your farm’s ability to service debt. “You can be profitable, but you may not have a positive cash flow because of debt,” Hund said. He cited a farmer’s concern that he didn’t have money to pay for holiday gifts once he’d paid his bills. Hund suggested speaking to the farmer’s banker to stretch payments over a longer period, which worked to make the payments more manageable. “Some farmers don’t recognize the effect a loan will have on cash flow.”

“The pandemic certainly is a huge challenge, but even without that, we were destined for challenges due to the classic cost of production exceeding the price received. Today, it’s tough to cash flow payments for land purchases that were made when corn was \$5 a bushel,” he said, noting that corn is currently selling for under \$4 a bushel. “Many are looking at addressing the term of their loans to cut down on the annual payments. Others are selling part of that purchase they made to lower their debt level. It’s difficult for farmers to let go of land that they recently bought, but if they can’t make the payments, something’s gotta give.”

Sometimes, Hund said, a challenge to getting to the root of a problem is that farmers are embarrassed about the amount of debt they have and are reluctant to give him the information needed to help them keep the ship above water.

4) Know your farm’s expense-to-income ratio. Farmers usually must spend 80 cents to get a \$1 revenue. If they double the size of their operation, that doesn’t necessarily mean that revenues will double.

“I’ve seen some average producers who are average marketers, but very good at controlling their expenses ... they often really shine,” Hund said. “Understanding what we can do with less if we need to is important. Maybe you can keep doing the same with the machinery that you already have or buy a used piece of equipment rather than a new one.”

In one case, a farmer needed a full-time employee and considered asking his wife to give up her off-farm job to fill the need. With Hund’s help, they worked through the numbers and determined that it would be more beneficial for his wife to keep her off-farm job, plus the benefits that came with it such as health insurance, and for the farmer to hire an extra person. In addition to putting that farm in a better financial position, the farmer gained a greater appreciation for the value his wife’s work brought to their overall financial situation.

5) Know how sensitive your business is to the effects of a decrease in revenue. Do you have the ability to weather a financial storm? What would a 5% decrease in revenue mean to your business? What can you do to make sure that you can cover a drop in prices or an increase in expenses? The term “debt coverage ratio” means that for each dollar of debt, how much will it cost to cover that debt? A lot of businesses tend to overlook this, Hund said, but this ability also matters to a potential lender. When you’re expanding or retooling make sure you have some ability to cover your bills and debts.

6) Know your family living expenses. This is the most challenging thing for many farmers, Hund said. “Here is a scenario I run into often: Farmer tells his wife ‘You spend too much money.’ The wife tells the husband, ‘You haven’t given me a budget.’ The husband tells the wife, ‘You just need to quit buying things we don’t need.’ The wife tells her husband, ‘Give me a list of what those things would be.’ So, it becomes a tit-for-tat situation when families don’t know what or how much to budget for family living expenses. It doesn’t mean the standard of

living for farmers is better or worse than non-farmers. But farm operations go through a lot of capital, and unless they do some analysis, they don't know what they can afford. My goal has always been to provide information so people can decide for themselves what their living expenses should be."

Transportation and health insurance expenses continue to escalate with farmers having a difficult time providing the funds needed. Farm equipment and pickup trucks have more features in them now than in the past, which increases the cost of the equipment and makes it more difficult to purchase upfront.

"It's not my job (as a farm analyst) to tell you what your standard of living is. It is my job to tell you if your standard of living is eating your farm," Hund said, adding that he's "seen a lot of finger-pointing" among family members over the years, but no matter the situation, many were able to reduce their variable costs and make their situation more secure.

"Some people think they can't live on less than \$10,000 a month and some live just fine on \$2,000 a month," Hund said. "There are usually ways to whittle down how much people need to live on."

7) Know how competitive your operation is. "One word," Hund said. "Benchmark." It's important to know how you compare with similar farms. The Kansas Farm Management Association's annual summary can help with that. The farm analyst cited an example of brothers who leased 15 different farms, all with different landlords. By benchmarking, they determined that three of the 15 were unprofitable and should be let go. With the remaining 12, they became profitable. Similarly, one of Hund's clients was growing crops on poor land. He converted the farm into a livestock operation and began turning a profit.

8) Know you are doing what you want to do. Sometimes, Hund said, he's worked with clients who are doing what they are expected to do rather than what they want to do. In one circumstance, a farmer took over a farm his father and grandfather had farmed successfully, but the operation lost equity over time. When Hund asked if he was doing what he wanted to be doing, he said that was the first time he'd been asked the question and answered honestly, that "no, he wasn't doing what he wanted to be doing. His heart wasn't in it," Hund said. That led to a discussion with the father and ultimately, the sale of the operation.

In terms of current trends, Hund expressed concern that seed companies are not only carrying their charges for the seed planted in the spring but not paid for until well after harvest. "What's concerning to me is the number of farmers taking advantage of this funding and getting the seed companies to help them pay for other expenses besides seed. This makes the seed company a de facto bank. I'm concerned about the control and administration of these new lenders, and the effect it has on farmers is certainly a big issue."

When asked what trait he sees consistently among farmers over the years, he said: "The love of their land and the legacy that is so important to give them the strength to carry forward when times get tough."

"I don't get tired when I'm driving," Hund added when describing his travel home after meetings with farmers. Going over possible solutions to a producer's particular challenges keeps his mind active.

Written by:

Mary Lou Peter

Kansas State University Agricultural Experiment Station and Cooperative Extension Service

K-State Research and Extension is an equal opportunity provider and employer.