

Farm Decision Making in the Current Economic Climate

Kent Olson
Applied Economics
University of Minnesota
January 15, 2009

Making a Difference in Minnesota



Short Term

- Tight margins
 - Some negative margins
- Volatile prices
- Rising, volatile costs
- Fragile US and world economies
- BUT interest rates are low

Making a Difference in Minnesota



2

Long term

- Good prospects for agriculture
- Opportunities for those ready
- BUT prices will be volatile
- The “long term” may come sooner than we think
 - For some areas, sectors, people

Making a Difference in Minnesota



3

NEEDED:

**High attention driving,
but not white knuckles**

Making a Difference in Minnesota



Managing in Turbulent Times

Peter Drucker, 1980

- First task is survival
- Manage the fundamentals
 - Liquidity and financial strength
- Manage productivity
 - Capital, physical assets, time, knowledge
- “Tomorrow is being made today”

Making a Difference in Minnesota



5

Drucker's Turbulent Times, p. 2

- Concentrate resources on results
 - “Feed opportunities, starve problems”
- Slough off yesterday
 - “If we weren't in this already, would we go into it knowing what we know now?”
- After growth periods, there are slow periods during which growth shifts to new foundations

Making a Difference in Minnesota



6

Management points

- Increase probability to survive
- Be ready for opportunities
- Financial fundamentals
 - Liquidity
 - Solvency
 - Repayment capacity
 - Profitability
- Cash flow management

Making a Difference in Minnesota

7

UNIVERSITY OF MINNESOTA
EXTENSION

Management points, p.2

- Set priorities
 - probability of survival
 - preparing for opportunities
- Keep productive staff
- Reduce costs
- Increase efficiencies
- Defer investments, capital purchases

Making a Difference in Minnesota

8

UNIVERSITY OF MINNESOTA
EXTENSION

Management points, p.3

- Renegotiate leases
 - Walk away when necessary
- Repair vs. replace
- Take care of yourself, your family

Making a Difference in Minnesota

9

UNIVERSITY OF MINNESOTA
EXTENSION

Future Management

- Change
 - be ready for it
 - Change yourself, your business
- Strategy
 - vs. production management
- Risk management
 - Prices, finances, labor, etc.
 - Scenarios of the future
 - Test your beliefs, the coffee shop

Making a Difference in Minnesota

10

UNIVERSITY OF MINNESOTA
EXTENSION

Future Management, p.2

- Become a CEO
 - vs. a production & marketing manager
- New opportunities
- New connections
- Outsource
 - Your time vs. hired time
 - Financial mgt. vs. production labor

Making a Difference in Minnesota

11

UNIVERSITY OF MINNESOTA
EXTENSION

Thank you!

Questions, comments

Kent Olson
 Applied Economics
 612-625-7723 kdolson@umn.edu

www.farmmanagement.umn.edu
 for the link to these slides and other papers

Making a Difference in Minnesota

UNIVERSITY OF MINNESOTA
EXTENSION