Exercise 1 Transcript

The following is the transcript of the farm diversification focus group. The questions asked by the facilitator are in bold, and the resulting discussion of participants follows in chronological order. Comments by different individuals are indicated by the paragraph breaks.

**Q: What is Farm Diversification?**

Doing something that makes money… you keep diversifying until you find something that makes money and still fits into your existing operation.

One of the things that we look for… when we see farm operations that have different enterprises… is that they complement each other, that they’re not competing against each other, whether it be for labor, for capital, or whatever, but that they’re a good complement and that they fit together.

I wrote a note while you were saying that.. they complement or in some way supplement, even if they’re different from each other…. I think that dairy and poultry complement each other… I think that sometimes people get into thinking that pumpkins supplement the dairy, not necessarily complement it….

Another thing that I think that I’d add in is that I sometimes think of value-added… instead of doing a different enterprise, they’re adding to what’s already there… (garbled on tape… some interpretation)
Q: Why would a farmer want to diversify his/her farm?

No money… to increase income.

Spread risk.

Bring somebody else in…

Cash flow.

Garbled comment…

Q: Any other possible motivations?

Create growth opportunities for other family members…

Q: How would a farmer decide to diversify?

We’d hope that he’d have a plan…

A lot of times out of necessity, for survival…

We had family member coming out of high school… out of college, and had to increase income.

I think that diversification is unique to each operation, it depends on what resources that operation has available to it.. some people got a surplus of labor, some a surplus of land, they got a market for on-farm processed milk… just depends on what resources you have, it sometimes dictates what decisions you make about how you diversify.

That, and it depends a lot on what people like to do… I mean not to just have the resources, but you’ve got to find something that they like to do.
Open the books… I mean when you look at your… when you’re sittin’ down and balancing everything out each month, you know you’re going to have to be branchin’ out. Each new person’s comin’ in you might have to diversify, it depends on what direction you’re goin’ in.

**Q: What are the key factors in the decision to diversify?**

The quickest and easiest way to make the most money.

Like’s been said, it depends on your resources… you’ve got to have the right resources..

Or think about where you’re going to get them… cause, you may think that you’re going to do it yourself, but you might find that you can’t do it right yourself, so you’ve got to think about where you’re going to get that labor or help with diversifying.

One of the biggest challenges that we see, with people that are looking at growth opportunities and diversification, is that they undervalue, or maybe they don’t really predict how much management ability that it’s going to take, and they think that they can do it all and they really can’t, so they limit the success of the operation by strictly they’re management ability and they’re desire to maintain control and they’re unwillingness to seek professional assistance, whether it be from CPA’s or something as simple as that to someone who will help them coordinate an expansion, and resources like the land-grant colleges that can provide resources like research or whatever, but they really allow the operation to outgrow their management ability, and where we see failures, very very often it is tied directly or indirectly to lack of management ability.

I think that it’d be important to have quality people. No matter what direction you’re going in, I mean it’s like you said you’ve can’t do it all yourself, you got to have some help and you gotta have the knowledge there.
I seen that in the operation that I work for a commercial operation with a single individual whose milking 200+ cows and got 2000 turkeys and a trucking business. And his ability to manage money has exceeded his ability to manage people. And I’ve seen that for sure in that case and in other cases as well.

Well you know when you look at an operation, and I’m just going to make up an example.. say you’ve got an operation, say you have a dairy farm and maybe the owner’s a heck of a good cow man, and he can grow crops pretty well, but he’s great with his cows, and maybe he wants to add a processing plant too, well his part of the operation he really has to move into the managing the people part of it, the financials, and his desire is to stay in touch with the cows, and if he follows through with that then he’s not spending time on the business part of it and probably the business could very well suffer from it… and if you look at other cases, I don’t care what it is, people have a knack for one part of the operation, when they start growing and with diversification, particularly when they get multiple enterprises, whether it’s vertical or unrelated, whatever the case is, they’re really making a decision to shift to a management decision rather than the operator of that business and they’ve got to be willing to let go of that or at least delegate some of that in order to be successful.

When you do diversify, I think it’s very important to diversify into something that you know or familiar and that you like to do, because when we started into landscaping, I liked it, that’s why I pushed it and then I also like the dairy part but I never really did like the cows, so Dad took care of the cows and that give me time to do the other stuff, and it’s helped to get the partners, and we all know different things…. I think you gotta… to diversify you gotta do something that you enjoy, and something that you know about, but if you diversify into something cause it shows good profit… if you don’t enjoy it or know much about it, it isn’t going to give you nothing but problems,…

We see a lot of situations, whether it’s a family or not, you have key individuals whose specialties differ, and whether one individual continues to focus on one part of the business and someone else on something else… but collectively, they can cover all of the needs and management responsibilities within the business and that allows the business to grow, and grow
successfully in a lot of cases, but you know, when you don’t have that, then it really impacts the ability of the business to succeed.

**Q: What about the marketing?**

I think in agriculture most people miss the marketing, because that’s one thing that we stress, but most times farmers don’t like to market, and marketing is one of the best… just like if you want to do the pumpkins there, you don’t have to market them, because of the people there, but you can do the same thing… the farmer with the back 40 can do the same thing… all you got to do is a little bit of marketing… and most of the time and I have to say that my Dad wouldn’t do it… I mean he was happy where he was at and if he had to do the marketing he wouldn’t do it.

That’s the same with us, that they can get bigger with their pumpkins if they really wanted to, they don’t have to market, and my dad doesn’t want to market. I know pushed for two years to get into wholesale, but they didn’t want none of it…

A guy that we’re partners with has got a meat shop there, and there’s specialty meat shops going up all over the US, and I guess if you’ve got grass fed beef, and stuff like that, he could’ve done the same thing in the meat industry that we’re doing in the dairy industry (on-farm processing), and he said that he was comfortable financially and he just didn’t like marketing.

One other thing that I think is important is that they look at what assets they have, not necessarily fixed assets, but what strengths the business has and try to utilize and take advantage of opportunities that are there that maybe they just don’t have their eyes open to… you know, utilizing the opportunity that they’ve got there. A lot of people in business, particularly in the farm business, kind of have tunnel vision and not looking at what opportunities are there and they are just not going into it with an open-eyed approach to see where the opportunities lie and if they’re going to make a little more profit out of this operation with minimal additional expenses, and I think that’s true, especially with maximization of labor… if you’ve got to have so many people around because of one piece of the operation but there’s a couple of hours where they’re not doing a whole lot, then well maybe you can add another unit to the operation where you can
maximize the use of that labor and there you’ve got little or no additional variable expenses in the form of labor and maybe you’ve got a little bit of expense on the capital improvement side or whatever, you can get more volume and maybe more profitability.

**Q: What are the relevant financial issues with respect to farm diversification?**

Raw land.. you need land for collateral..

You need equity, cash flow, credit worthiness, good credit history, repayment ability, business plan… encompasses everything from how you’re going to fund to project to what kind of repayment ability the project’s going to have to operating expenses, to a marketing plan, the whole works… collateral’s a big one.

We deal with a lot of financial institutions and I figure that if you’re a slick talker and you have a good business plan that you can get yourself a loan. But if you’re going to get it for a good rate collateral’s your only leverage. That’s what I told a couple of the banker’s I was dealing with, I said “y’all force people to be crooks…” because we’re coming in here with so much raw land and so much collateral amongst the partners to give you but yet we don’t have a feasibility study, we have a good business plan but no feasibility study, one of the local banks said we’ll give you the loan if you give us the feasibility study… we said we’ve done tried it, but we can’t wait on the college, they wouldn’t do it… I said you know you’re forcing us…. I could have come in here and said “alright I want to borrow everything I can borrow against my land” and got the money and run… that’s the thing.

I think one key thing is that the business owner has a good understanding of how the financial world works, and how to deal with financial institutions, because if they’re not careful, they’ll end up in a situation that they can’t get themselves out of, because a lot of lending institutions are basically collateral lenders and they’ll loan you what you want as long as you’ve got the collateral for it, but what that does on the back side is that it ties you up so that you can’t get out of it, or if you need some operating money in the meantime, they say “what collateral have you got… we’ve already got everything… we’ve even got a loan on the dog bowl” and you can’t do
nothing else… see a lot of lenders will say that “sure we’ll do it, but we want a lien on everything” and if you’d have said yeah, then you wouldn’t have anything in the future, but if you deal with a lender who will evaluate what they need to be secure and then you work out the collateral arrangements and say “well, ok, we’ll let you have a lien on this piece of property” or whatever and make the arrangements, but you’re still holding collateral that you can use for future operations or for… or well it gives you security in the business and personally as well and it also gives you something that you can if you get in a bind that you can use for operating money or whatever.

Q: What about profitability?

Well, profitability and cash flow are two different things, and profitability is certainly key and it depends on how you view profitability, do you view profitability as what the bottom line is on the tax return?

That’s right, it depends, there’s all kinds of different situations out there…. I mean what’s the average return on farms? But when you’re looking at the tax returns that doesn’t always tell you 100%, you can right anything on paper.

One of the things that we do and we stress when we evaluate credit applications is that we get tax return information, but what it says on the front of the 1040 is somewhat irrelevant, because we spend more time on the schedule F and Schedule C Schedule E and whatever might be attached to it and then looking at cash flow… I think that profitability is key… but the reason that I say that cash flow is so important is because that’s the real indication of how successful the business is and if you’ve got a lot of assets sitting out there, you’ve got a lot of depreciation, you’ve got a lot of interest expense, you know some of those things are non-cash expenses, they’re expenses that go on there for tax purposes but it’s not an operating expense, so in terms of something that you are laying out cash for.. so it affects what you show on your bottom line on your tax returns but it doesn’t affect what your net available cash is on any given day for the operation.
You know we look at that, you know like with our lease agreements, assets are off-balance sheet assets, but they’re still there, and they’re still an obligation, and even though (the lender) may own this 100,000 dollar building, that’s sitting on the farm, so it’s not showing up as an asset, but you’ve still got the debt, but if you treat it right for tax purposes it shows as a contingent liability and a rent payable for the next 12 months... and lot of lending institutions will say for evaluation purposes we’re going to treat it as if you own it and treat it as a loan, but that’s really not the right way to do it. If you really want to look at it right, you treat it as a non-owned asset and as a rent payable.

You can have a tremendous amount of assets, but the main thing is your cash flow... that’s the bottom line, being able to make them payments. And that’s the reason to look at diversification... and like they said, sometimes that don’t always work, you’ve just got to take time to look at that.

**Q: What are the family issues?**

The structure needs to be on paper... needs to be a plain, simple structure in writing... and everybody needs to know what direction you’re going... it’s always been that way and Dad says well that don’t work neither...

We have a CPA, but there’s nothing in writing... so that’s I mean well my Granddad and uncle still owns the farm, and they’re 50/50 partners and they’re going to give their son the capital assets, but how do you divide it up... they’ve never sat down and discussed it like this... the only way to decide it without discussing it is to sell it basically... and then split it... you can split money, but you can’t split tractors and cows in half...

And if you do, what’s that going to affect? It’s going to affect your cash flow...

Well, you have the issue of just family and I see the problem, but I can’t tell granddad like that and it’s hard to find the right way to say you know what are you doing, or why don’t you think of it this way... so just the whole issue of family and how you’re brought up to respect your dad
and granddad and that makes it hard maybe to step in that business direction so for the business to succeed this is what we’re going to have to do… it’s easy for someone from the outside to say that, but not for a son or nephew or whatever cause you’ve got to sit down and eat holiday dinners with them…

That’s one of the biggest problems you have in every situation…

I think one other key thing is that all of the family members are participants or are actually behind the operation and that they believe in the decisions that are being made I’ve got one customer that I deal with personally that started into a big expansion and the husband and wife didn’t totally agree on the direction that they needed to go and the husband was pushing for it and she was pulling back and now few years later, they’re divorced and the business is in jeopardy and it’s because she didn’t stand up and say as half-owner of the business that “I don’t agree with this, let’s really think about this” and she couldn’t find a way to do this, and now their lives are in turmoil because of it.

Always have to have common goals when dealing with people and common objectives.. and these are cases where the people didn’t have common goals and objectives, so I think that it’s one of the biggest issues with family…

And it not just family…. I think that if me and you were going into business together that we’d need to have the same goals…

That’s happened on our farm… about two years ago we started using bst, and my dad wanted to go to 3 milking, but my uncle didn’t agree, but they did it anyway, and now they are getting older and can’t really handle it and well they had to back off to 2 times a day, and my uncle won in the long run, but you have to have common goals and be able to reach those goals…

You also have to have a willingness to re-evaluate your goals and your business plan to adapt to what’s working and what’s not working and have a willingness to sit down and figure out a way to make it successful.
A wise business man said to me that when two people come together and work they have to agree to disagree to make themselves stronger.

There’s always going to be change…

When they sit down and have these meetings sometimes they’ve got to leave their personalities outside… sit around the table and say from a purely business perspective what’s going to work and what’s not going to work. And leave their egos and personalities and that kind of stuff outside…

Q: Where would a person go for help with respect to making this decision?

Somebody that’s doing what they’re looking to get into. That would be the first place that I’d say to go, then you should spend a good time researching it.

I think of that question a little bit broader… as far as trying to determine, if you know that you’ve got to do something, trying to find out what to do, then there are a lot of resources where you can look outside the operation for ideas and suggestions…. Looking towards research facilities like your colleges and universities, looking on the internet, looking at other operations, farm publications, particularly are littered with articles about people doing corn mazes and everything else, but also looking within, as far as, if you’ve got the resources available to do some of these things. If you don’t have the resources, then there’s no use in pursuing it, you’ve got to look at the assets that you have, you’ve got to look at the capital that you have, and what you can obtain, look at what you can handle from a management perspective, what you’re interested in, and what your other family members and business partners may or may not be interested in, and try to make it all fit together. That can be quite a task.

Usually an outsider can look in and see your problems better than you can, too. If you get somebody you trust from a college or a good sharp businessman, let him in and identify the problems that you might have.
America’s industry has left agriculture… when we get into things now… we’re getting into things that folks said “we used to do that and couldn’t make money”, just like glass bottles, (they say) “nobody wants glass bottles, that’s old” and so, we get into a lot of that. Be very careful and very conservative (when dealing with consultants)

Q: If you were planning a diversification venture, what’s the first thing that you would do?

It depends… if I already have something in mind, then I’ll do something, but if I’m trying to think of something, I’ll start reading and say well, I have this land, what can I do with it… that’s what I’m doing with my project, so that’s when you start just reading and getting ideas.

The big thing here is just like he said, Granddad or dad owns the farm.. there’s usually two different situations that you hear… one situation that you hear of is that dad and granddad own the farm and us younger guys want to do things, what do we do? It’s hard to diversify.. you’re going to have to diversify with a business, people or something… now if you’ve got raw land, then you can get into things, I mean if you’ve got the land, then your diversification is so much broader… you could do a lot of different things.

Q: If a farmer were planning to diversify, what skills, tools, etc. would he need?

Outgoing… that’s not saying that traditional people aren’t outgoing, but you got to be more of a people person… or somebody within your operation has to be out there being the seller or the people person attracting people in to buy your product…

I don’t think a pessimist can diversify…

I think that you have to be an optimistic conservative… willing to try new things, but you’ve got to be conservative enough to put realistic goals and expectations in, and putting self-controls in so that you don’t go overboard…
You know partnerships everybody says is bad, but I see partnerships as good… because, if you’re building a pyramid, and you’re sitting on top alone, if things go good, it’s easy for you to fall, if things go bad, it’s easy for you to fall, it’s easy for you to take too much responsibility, if you’re trying to diversify and grow… if you’re doing partnerships, and you’re a true businessman and you’ve got a true businessman as your partner, you look out for another, and you really stay in touch, cause you know if you don’t do what’s right, if you don’t do the best, you’re not going to be there, it’s going to cost everybody. I think partnerships need to be three… if it’s 50/50, it’s just like two bulls, one time he knocks you down, one time you knock him down, but if you’ve got three, three minds are always better than one, and you’re not going to lay each other out, I think it looks best.

With that, I think that you’ve got to have a clear understanding of how the relationship works. And a clear organizational structure of how a business is going to operate, and when you’re talking about partnerships, even if you file your taxes as a proprietorship, your partnership is still probably your spouse, and whether you like it or not, they have to be on board with what you’re doing as well. I think that there’s a lot of problems by farmers saying “all my wife does is take care of the kids and makes supper,” but she owns half of everything you own… and if you get divorced, probably more…

Q: How important is formal education?

My opinion is, I think it’s very important, but I think that more important than having a degree, is having the knowledge that if you don’t know, you know where to go to get the information, and you can hire somebody to do it. If you can manage, the key people within the business who are going to provide the direction of how the business is going to run, as long as you understand how to put those people together, the degree doesn’t matter… and if it’s you, I’d say that you’d better have some education under you, unless you’re going to hire a lot of outside consulting… or have somebody in the operation that knows what the heck they’re doing.
The key thing is the desire to be able to educate yourself, you don’t have to have a degree, I know several good businessmen that haven’t even graduated high school, but if you learn and continue to learn, that’s the type of education that you want.

**Q: How important is non-formal education?**

My biggest thing is, I don’t know but I’ll find out…

One of the most important things that I learned in college was how to think and how to learn… if I don’t know the answer than I can find out where to get the answer… if you know how to think and how to learn and if you’re open-minded to being up front about what you don’t know and being willing to go find out, then I think you’ll be alright.

My dad went to college and got a degree in computer science… nothing about management… they just found good people to help….

**Q: If you were considering some sort of diversification on your farm, what sort of questions would you want to ask someone who has already done it?**

If you had the decision to make again would you make the same decision?

What would you do differently?

What resources did you use?

What resources could you have used better?

What does their future look like?

What does the market look like?
What contingency plans did they have in place?

What was their baddest year… how bad is bad?

Was it a “have to” decision or a “want to” decision?

What was the driving force?

Timing is critical…

How much time did it take to do this?

How much time do you want to put into something?

What was the labor commitment?

Where in the market trend are you?
Exercise 2 Transcript

In this exercise, participants were asked to think of what questions that they would ask if they were conducting the case study interviews. These questions were written down on sticky notes and the participants categorized them onto flipchart pages as questions that they would ask in the beginning, middle, or end of the interview. The participants were also asked to think of questions that they would not ask.

After the questions were written and categorized, participants used colored dots to indicate questions that they felt were the most important, and red dots were used to indicate questions that they thought should be avoided. The results of this exercise appear below, with the number of dots in parentheses.

**Questions for Beginning of Interview**

- Why did you diversify? (4)
- What were your goals? (1)
- When you diversify, will you do something that adds value or will you do a completely different enterprise? (0)
- What is the driving factor? Financial? Growth? (2)
- What will you do if you don’t? (0)
- What is your business plan / marketing plan? (1)
- What was the main deciding factor? (2)
- What other factors were involved? (1)
- How did your goals and objectives change? (3)
- Did you meet your goals and objectives? (4)
- Why did you diversify? (3)
- What went into your decision process? (4)
• How does it fit into existing operation? (4)
• What is the management structure? (2)
• What is the organizational plan and responsibilities? (3)
• What are the strengths and weaknesses of your plan? (2)
• Did you do a feasibility study? (3)

Middle

• Has it been profitable? (0)
• What are your goals now? (3)
• What changes are you going to make? (3)
• What changes have you made? (2)
• How big is your market area? (2)
• How much or what market research did you conduct? (3)
• What were some problems? (2) (twice)
• What would you do different? (3)
• Did you set goals of what you wanted to achieve? (3)
• At this point, have your reached your goals? (3)
• What would you do different? (0)
• What are the capital requirements? (2)
• What is your financial strength? (2)
• What resources did you use? (3)
• How did you determine your market size? (4)
• How did you obtain your resources? (2)
• What has been your high point? (2)
• What has been your low point? (3)
• Environmental / regulation constraints? Surprises? (4)
• What was your current cash flow situation? (4)
• How will cash flow change? (4)
• Where did you find the expertise to offset the weakness of the management team? (2 red, 1 green)
• What are your contingency plans? (4)
• What are your safety nets? (5)

End
• Did you think about immediate future or next generation? (5)
• Is there a possibility that it won’t work? (3)
• Are you happy… would you do it again? (1)
• What would you do differently? (5)
• Are you glad that you diversified? (3)
• What advice would you give to new entrants? (3)
• Any expansion plans? (1)
• Any plans to scale back? (2)
• Five year plan? (2)
• Was this the right decision for you? (2)
• Ten year plan? (1)
• How much time does your enterprise take? (2)
Questions to *not* ask

- Are you broke?
- How much does it cost to do this? (unless they offer)