



Ag Biz Planner

**Young, Beginning, Small and Minority Farmer
eLearning Curriculum**

eLearning Module Text



Module 1: Megatrends of Agriculture

Introduction

Welcome to Farm Credit University's Ag Biz Planner educational program designed for young, beginning, small and minority farmers. The mission and purpose of this learning experience is to provide you a road map for success on the financial and management side of your farm or ranch, balanced with lifestyle goals.

This educational journey is a blend of the latest high tech learning approaches utilizing mentorship and applications to your specific business. Some of you are taking an increased role in management of family businesses; others are agri-entrepreneurs starting from scratch; while some are multitaskers with off-farm income or a diversified set of enterprises. This program will provide focus and structure with an interactive learning environment to guide you through the process of building a business plan.

It is designed to test your paradigms of critical thinking, addressing questions and challenging thoughts through interaction with peers and mentors. Content is presented as interactive eLearning, readings, podcasts, interactive exercises, and action steps.

Accountability will be ensured through knowledge checks. Next, there will be exercises applicable to your business, which bridge the gap from the academic side to the practical, real-life situations. Specific exercises and action steps are designed to facilitate engagement with mentors and others.

Now, let's outline the journey ahead.

The first module will start out at the "high beam" level describing and analyzing future trends on the horizon that will impact your business and personal life.

Next, there will be an overview of the strategic planning process that sets the stage for the business plan you will create during this journey. The SWOT analysis will connect the megatrends to your business along with goals and objectives.

Borrower-lender relationships is next on the docket with methods to enhance those side-by-side relationships. This module is specifically designed to get you organized for a more productive borrower-lender relationship.

The next stop is the balance sheet, both business and personal. Guidance on how to construct your balance sheet with an understanding of the financial terminology will be the ultimate goal.

After the balance sheet is completed, you will be introduced to both the cash and accrual income statements to determine profitability. There will be application exercises and action steps to complete the income statement for your business.

Next, you will dig deeper with education on the cash flow statement. This is the heart and soul of business planning as one must think through production schedules,

Module 1: Megatrends of Agriculture

marketing, financial and operational plans. The key to your business success is whether it generates positive cash flow given certain assumptions.

Once the financial statements are completed, the next task is to analyze them, starting with the balance sheet. Financial ratios, benchmarks and guidelines will be presented. Use them in your business plan to analyze the five C's of credit. Repayment ability, cash flow, profitability, and financial efficiency will be the emphasis with ratios and benchmarks from peer producers.

As the journey comes toward an end, business growth, enterprise budgeting, and transition management will be discussed in depth.

The Ag Biz Planner program is rigorous and challenging, and will require a commitment of time, self-initiative, and discipline. These are some of the same factors that determine success in operating a business. Let's buckle up and get ready for the journey. We will see you on the other side with a business plan in hand. Are you ready for the challenge?

Module 1
Megatrends of Agriculture

Table of Contents

Learning Objectives..... 5
Welcome! 5
Agricultural & Economic Mega Trends of the Future 5
Marketplace Disruptions..... 5
Dietary Trends..... 6
NGOs 7
PODCAST #1: What are some examples of NGO influence in agriculture? 7
Technology & Innovation..... 7
PODCAST #2: Is technology hindering productivity? Balancing High Tech and High Touch?..... 8
Global Economy 9
PODCAST #3: How can a producer effectively manage in a global marketplace? 9
Farm & Ranch Structure: Outlining the Industry 10
Larger Farm and Ranch Businesses 10
Traditional Family Farms and Ranches 10
Vertically Integrated and Contract Agriculture 10
Agri-Entrepreneur 11
PODCAST #4: What are common attributes of successful agri-entrepreneurs? 11
Lifestyle Farms 12
Rural Community Dynamics 12
Natural Resources..... 13
Oil and Energy 13
Environment 14
Government Policy 14
PODCAST #5: How important is it for farmers and ranchers to get involved in public policy development? 15
Domestic Economy 15
Transition Management and Human Resource Management 16
Summary 17

Module 1: Megatrends of Agriculture

Learning Objectives

The learning objectives for this module are to:

- Increase your knowledge of the socioeconomic and agricultural trends that will be impacting agribusiness in the future.
- Inform you about the farm and rural community structure that is evolving and its impact on agribusiness and family lifestyle decisions.
- Briefly introduce management practices that can assist in navigating and capitalizing on the trends identified in the current and future agribusiness industry.
- Develop awareness of challenges and opportunities in the agricultural industry that can be invaluable in the strategic thought process.

Welcome!

Welcome to the starting blocks of your business journey. This high-octane itinerary with a challenging road map will show you many facets, perspectives, concepts and principles of business management and finance that can be applied to agriculture. Some sights and scenes you'll experience may challenge your current paradigms, while others may confirm some pre-existing thoughts and values you may already have about managing a business.

While each situation has unique opportunities and challenges, everyone would undoubtedly like to travel down a highway of success. The goal of this tour is to provide you with information and skills that will help you prosper whatever your endeavor might be, helping you position your business, family, and personal lives in such a way that you can capitalize on opportunities available in an evolving agricultural and rural landscape. Your personal challenge will be to gather information and knowledge from your journey and apply it by customizing it to your personal situation.

Agricultural & Economic Mega Trends of the Future

The terms “perceptual acuity” and “20/20 foresight” can be applied when examining the future of agriculture. Let's take a look at some thoughts that have emerged with strategic leaders and thinkers at all levels concerning the future of the agricultural industry in light of societal changes.

Marketplace Disruptions

A major retail market disruptor, Amazon, expanded into food and other sectors. This marks only the beginning of the splintering marketplace that will challenge food processors, agribusinesses, and large cooperatives.

Module 1: Megatrends of Agriculture

Actually, the brewing industry is a good example of this disruption. Even with the market dominance of Budweiser and MillerCoors, these industry giants are being challenged by microbreweries. Of course, this trend is driven by the consumers who seek lifestyle experiences with a blend of technology and personalization.

The local, natural and organic markets will continue to grow both domestically and internationally. Suppliers will need to develop ways to avoid commercialization and establish a sustainable market with a specific segment of the population. These consumer-driven changes in food retail can easily be observed. Passengers are served non-GMO pretzels on one flight, and gluten-free potato sticks on another. The label on the chocolate chip cookies boasts that they are made with eggs from cage free chickens and real butter. These examples are just a flavor of what is yet to come in the consumer marketplace for food.

Further, in this marketplace, there is room for both GMO and non-GMO, organic, natural, and products linked to specific ethnic groups or segments of the society. These varying preferences will accelerate marketplace change and drive profits for the next decade and the foreseeable future.

Dietary Trends

Ninety-five percent of success in business comes from the alignment of the resources you have to work with including land, labor, capital and information. Second, it's the people you assemble to achieve your vision, objectives and goals. Finally, it's aligning with the marketplace of consumers for your product or service. For example, travel to Europe finds more Europeans are now vegan and a similar trend is in the U.S. population, which is up considerably since the turn-of-the-century.

Yes, as mentioned earlier, the organic, local and natural marketplace will be a growing player. However, more linkage to the point of origin through technology and human interface will be a differentiator in the marketplace for the new generation of consumers. Generation Z, millennials, and even the aging baby boomers are altering lifestyle and dietary habits. Seventy-five percent of purchases will be for an experience linked with health and lifestyle. Substitute beverages such as almond, oat and soy have impacted the dairy industry and cultured meat from the San Francisco Bay area has raised the eyebrows of the meat industry. Food and dining experiences with specific product traits linked straight from the source to the plate will become commonplace. Ethnic group linkages with convenient experiences will require outside the box brainstorming by the agricultural industry groups. Often an agriculturalist can see the future through travel in Europe, Oceania and Canada, which have very diverse, globally-connected populations.

Module 1: Megatrends of Agriculture

NGOs

Non-government organizations (NGOs) will help shape how agriculture operates in the coming years. Ranging from animal welfare to environmental concerns, the interests of the public and various NGOs must be built into the equation for agriculture. For examples, the closing of Ringling Brothers Circus after 146 years, and the protests to the movie *A Dog's Purpose* both show the breadth and depth of influence from these organizations as well as the power of consumer support. Like much of the world's population who are many generations away from the farm, these groups are somewhat disconnected from the production of food, fiber, and fuel that drives agricultural economics. They will require fact-based messages and collaboration with people and institutions within and outside of the ag industry, which may test the patience of people working in the industry.

PODCAST #1: What are some examples of NGO influence in agriculture?

In the poultry industry, many supermarkets are moving toward selling cage free chickens which is challenging the traditional methods of production in the poultry industry not only in the U.S. but abroad. Many states have implemented welfare codes for livestock housing and working with animals. Terms such as open pens, antibiotic free, and biosecurity documentation will become the norm of the future. With social media and a hypersensitive society, the phrase "social license to farm and ranch" will be one of the hoops that producers will encounter in the future. Lawsuits brought against major international brands and larger agribusinesses will become more commonplace.

Technology & Innovation

Technology and innovation will be a high priority for any producers' game plan for success in the future. Some will be in the position to adopt the latest technology for crops, livestock or mechanization. Others will pursue a low-tech method of agriculture production that fits their skill set, resources, and perhaps the consumer marketplace.

The convergence of bio, engineering and information technology and aligning with the consumer marketplace will provide the competitive edge for the future agriculturalist. A recent visit to a dairy operation discovered the implementation of robotic milking machines. This not only lowered labor cost but provided a means to attract highly skilled labor including a daughter who had been a European consultant. Empowered by the data output of the robotic milking machines, they increased production, and lowered veterinary and breeding costs which improved the bottom line.

An apple grower and processor as well as a soybean producer and processor implemented automation because of the higher minimum wage requirements. Again,

Module 1: Megatrends of Agriculture

quality increased; however, from a risk management standpoint, producers saw labor and personnel challenges as well as some possible legal issues were curtailed.

A crop producer utilized information to increase productivity by field, including an organic segment that was isolated from the rest of the production by utilizing precision agriculture. This forward thinking young farmer was able to reduce input costs such as fertilizer and implement timely water applications reducing costs up to 20% and adding \$300,000 to the bottom line, even after reducing marginally productive land by 3,000 acres. Often newcomers to the industry or people who have had employment or experiences outside the industry are observed implementing new technology.

The future of agriculture will require individuals to analyze data, critically think about the implications of the data and finally be able to communicate the information to employees, stakeholders, and the front line consumer. This will provide the differential edge for success.

Those that desire low-tech or traditional methods of agriculture can prosper as well. In this approach, producers will often attempt to minimize investments with used equipment and replace equipment with labor. In some cases, an organic or natural approach to practices can be very successful when the resource talents are aligned to an ever-changing marketplace. The skills needed regardless of the model are that one must be observant, business minded, and network with key players inside and outside the agriculture industry.

Meeting the food, fiber and fuel needs of domestic and global consumers will require a mix of agriculture businesses with various technology strategies to serve varying consumer preferences. This is why one size does not fit all in the future of agriculture.

PODCAST #2: Is technology hindering productivity? Balancing High Tech and High Touch?

In the future, much discussion will center on technology and productivity. Finding the balance between high tech and high touch or the ability of people to prioritize and incorporate it into productive and relevant outcomes will be a priority.

Recent studies have found that interruptions occur every 2 to 7 minutes by the use of technology and the average person pokes, prods or taps mobile devices over 2,500 times a day or up to two and a half hours per day.

Once this interruption occurs, the person's IQ drops 10 points and this is analogous to a poor night's sleep. It causes errors to increase by 19 times and it takes 30 minutes to reconnect. Don't be surprised if the term "techlash" is used more in business, family and personal life discussions. Taking time to "hear the silence" for two hours a day without technology is a business strategy for productivity.

Module 1: Megatrends of Agriculture

Global Economy

The changes in economics, food, fiber and fuel trends in the growing populations of the world will impact all business models in agriculture. Agriculture in the U.S. is very dependent on global markets since American farmers and ranchers efficiently produce output. Approximately 20% of net farm income is a result of export markets. Some commodities such as cotton, tree fruit, wheat and soybeans can exceed 50% exported in a given year. On the livestock side which includes pork, poultry, milk and beef, the range is often between 10 to 20% exported. For fresh fruit and processed vegetables, the range can be 20% to 30% exported.

In the future, more competition will emerge in the Southern Hemisphere of the world. For example, Brazil has been adding farmland each year comparable to the size of Maryland and half of Vermont. Areas in Eastern Europe and Africa, which has the largest arable land potential with over 30% of the world's potential, can be major competitors in the future. Strategic investments in land, infrastructure and market development in these regions by China and other Asian nations will test the competitiveness of American agriculture.

Trade agreements with major trading partners and tariffs on products in North America and throughout the world will be very important in the profitability of various agriculture segments depending upon global trade. The North American continent, including Canada, the U.S. and Mexico which make up approximately 30% of the world economy, will be an important trading block. Asia, which has three of every seven customers who are rising middle class, will be another important segment of agriculture trade in the future.

Agriculture trade agreements are frequently negotiated from a multi-dimensional context with other industries such as steel, technology, manufacturing and automotive. Trade-offs can often impact profitability of the sector very quickly and abruptly. The agriculture industry is often the point dog or the point of the spear for world trade with military, political and social actions feeling the repercussions both directly and indirectly.

Global markets and trade competitors will create extremes of volatility in prices, costs and marketplace disruption. This volatility will place a premium on business planning, execution with the drive toward efficiency, and effectively utilizing assets to drive down cost per unit. Volatility can be your friend if you proactively manage and take advantage of opportunity, or it can be your foe forcing you to be reactive in a changing world marketplace.

PODCAST #3: How can a producer effectively manage in a global marketplace?

Global economics will result in more volatility in farm and ranch incomes in the future. Granted, previous generations were required to manage volatility but future generations will be in an environment of volatility in extremes. Most of the

Module 1: Megatrends of Agriculture

time exports will be a swing factor in an oversupplied world. This is compounded by the fact that the U.S. is no longer the world's dominant breadbasket and supplier of choice. A trade issue, weather, tariffs, military or government action can change a bad market to a good one, or vice versa. Cash flow, sensitivity analysis, increased working capital, overall marketing and risk management are just a few of the management strategies and areas that the proactive manager can use to take advantage of volatility.

Farm & Ranch Structure: Outlining the Industry

As mentioned earlier, one size doesn't fit all when examining the future of agriculture and agribusiness. There are several different business models or a combination of business models that can lead to success. Let's examine the future landscape of farm and ranch businesses.

Larger Farm and Ranch Businesses

Approximately 10% to 12% of the farm and ranch businesses generate over 80% of production and carry 65% of U.S. farm debt. These operations can be located in all states but are most prominent in California, Florida, Texas and in highly productive locations in between. These businesses are often referred to as corporate agriculture; however, many are large, multiple generation family businesses. Historically, family members included brother and sister; but in the future, more operations will operate with cousins or an owner or equity partner who is outside the family. These businesses will often be large in acreage or livestock numbers. Some will have smaller, but more intensively controlled production environments such as greenhouses, turf farms, mushroom operations, etc. This business model will require astute business acumen in all phases of production, finance, human resources and marketing. Transition of management, skill base transfers from generation to generation, and development of middle management teams will be a high priority for long-term sustainability.

Traditional Family Farms and Ranches

The traditional family farm and ranch is alive and well. This business operation is often multi-generational and typically commodity-based. This segment is in constant evolution, either scaling up to a larger business, scaling down, or exiting the industry. Owners and managers of this segment are very resourceful with their land, livestock, equipment and machinery needs, and often exhibit modest to low family living cost. Resource constraints on land, water, equipment or facilities often result in difficulty for the next generation to operate these businesses profitably. Traditional mindsets of management that believe that "this is the way we have always done it" can be very challenging to future generations.

Vertically Integrated and Contract Agriculture

Module 1: Megatrends of Agriculture

One of the more prominent business models in U.S. agriculture is vertical integration from production to processing, or growing production for specific contracts. The vertically integrated model has been predominant in the poultry and the hog industries. In the future, expect to see increases in this business model in the dairy, grain and other industries. This can be a very attractive model for the young or beginning producer because of the ability to integrate new technology into production. Another benefit is the assurance of steady revenue from the integrator to meet expenses and to service debt and meet lifestyle obligations. The producer must be very focused on production metrics and overall efficiency by following the guidelines of the integrator.

Contract agriculture is often observed in livestock agriculture but can also be seen in vegetables, tree fruits, grains, etc. Producing to certain production metrics and quality standards can result in the ability to remain in the marketplace as well as give the potential to receive bonuses and incentives which increases the profitability of the business.

Agri-Entrepreneur

One of the rapidly growing segments of agriculture is the agriculturalist who applies an entrepreneurial mindset to the changing consumer marketplace. Historically, this segment was predominantly located near growing population bases. However, more producers in rural areas in traditional agriculture regions are adopting this model. Some take advantage of consumer niche markets such as organized local food markets. Others will devote part of the farm or ranch to an entrepreneurial activity such as growing barley or hops for a craft brewery, grass fed beef, free range chickens or hogs. Others will develop markets through an agri-entertainment offering such as wedding venues in rustic barns, strawberry picking or pumpkin patches and festivities. This allows people to escape the urban area and high-tech, high-pressure jobs for unique experiences. Agri-entrepreneurs are taking farming to the urban areas by introducing farming on rooftops or utilizing abandoned urban areas for a variety of ag production to meet the marketplace in urban areas.

PODCAST #4: What are common attributes of successful agri-entrepreneurs?

First, engaging in the development of a business plan is very critical for agri-entrepreneurs. In this process, one must think through production schedules, revenue and expenses, marketing, sales, distribution, and most importantly human resource needs. Many management attributes for success include a combination of production, marketing and people skills. The interface with the consumer and the public is very critical, whether it is through technology, face-to-face, or a combination of both. This business model can be very effective as a start up with minimum capital required and a person with great ideas. This can also allow a new entrant such as a son, daughter, or nonfamily member to carve out their niche utilizing resources of an existing farm business.

Module 1: Megatrends of Agriculture

Lifestyle Farms

At the opposite end of the spectrum from larger operations, which generate much of the production, are lifestyle farms and ranches. This segment of agriculture is large in numbers, up to 65% of the 2 million American farms and ranches, but this segment generates only a small amount of production. In some cases, young and beginning producers start as lifestyle producers by leveraging off-farm income or wealth to grow the business. Others desire to farm and ranch on a small scale to maximize their lifestyle such as raising a family or pursuing a passion. This business model includes people of all ages, social and economic classes, generations and races with much diversity. Some of the operations will be located near urban areas or satellite cities, while others want the solitude and peace of distant rural settings with rivers, mountains and valleys. Being successful in this business model requires alignment between employment, income generators, and lifestyle demands.

As one can see, business models come in all shapes and sizes in the agriculture industry. Whether one pursues a single model or a combination of business models, each future opportunity will evolve over time as the dynamics of the marketplace and society change at an accelerated rate.

Rural Community Dynamics

A trend observed in the Prairie Provinces of Canada and other countries decades ago is living in town and commuting to the farms and ranches. This trend is becoming more prominent in U.S. agriculture. The reason for this is that more future agriculturalists are seeking the equilibrium or the balance between demands of the business, family and personal time. The community surrounding the location of your business can be a venue for business activities such as markets, availability of labor and also lifestyle dynamics.

A vibrant rural community will usually have the following attributes:

- Access to employment
- Quality school system and adult education opportunities
- Access to good medical care
- Preventative health systems and fitness areas
- Technology and internet access
- Good roads, water and sewer systems
- Shopping available nearby
- Leisure activities nearby
- Reasonable cost-of-living
- Proximity to natural amenities such as lakes, rivers and mountains for enjoyment

The ability to attract and retain high quality labor and management, the quality-of-life for family and self, and even market opportunities will be directly and indirectly linked to the proximity to these vibrant communities.

Module 1: Megatrends of Agriculture

Natural Resources

One of the strategic advantages of U.S. agriculture is quality and quantity of natural resources. The book, *The Accidental Superpower*, by Peter Zeihan points out America's strategic advantage is its abundance of navigable river systems which is more than the remaining global river systems combined. This allows agriculture producers and other industries to move products very inexpensively and efficiently through a system of river connections to ports and to global markets.

Water resources, both quality and quantity, will be analogous to oil over the past decades. Some say that the great water wars over a scarce resource locally, regionally, nationally and internationally could become the norm in the future. Increasing demands from urban and nonfarm industries will be pitted against agriculture endeavors. Water resource efficiencies used in Israel and Australia will be adapted by U.S. agriculture to use water up to 15% to 20% more efficiently. Where and how American agriculturalists will farm will be dictated by water rights, cost and balance with environmental concerns. Soil health will be an increasing megatrend attribute. Healthy soils lead to healthy plants, animals, and human consumers. Incentives and premiums for traceability to healthy soils could be a profit differentiator in the future.

In other areas, air quality will become a component of natural resource management. In some areas of the country, dust residues can determine where and how we farm. The use of weather applications on mobile devices for farming and ranching as well as for marketing and risk management will become more prominent in producers' game plans. Leading meteorologists predict that weather will be in extremes in the future. Gauging the weather forecast in production belts around the globe in the Northern and Southern Hemisphere will be critical in gaining a competitive edge in marketing, finance, etc. Weather data for specific farms and even fields and livestock management systems will provide incremental efficiencies for production increases and cost management.

Oil and Energy

The production and availability of oil and energy is critical to the agriculture industry and rural communities. The availability and cost of energy is a major factor in consumer trends and spending habits. Eighty percent of agricultural expenses are impacted by the price of energy. The leading indicator of many U.S. and global recessions has been a sharp increase in oil and energy prices.

Since the beginning of the 21st Century, the U.S. has become a major energy producer in the world. The combination of diversified sources of energy- wind, solar, fracking and ethanol - combined with more efficient methods of extracting traditional sources has brought more stability and reduced energy prices. Historically, cuts of production by energy producing nations in military and politically sensitive areas of the world, brought instability in this cost variable and overall consumer and managers' confidence.

Module 1: Megatrends of Agriculture

On the demand side, with major economies in Europe moving toward electric or hybrid vehicles and similar trends in the U.S., this will influence the price of energy. Of course, China is the second largest economy in the world and is leading the way in the Asian region with electric and hybrid vehicles to become more environmentally friendly. This, combined with an urbanized population that is becoming more dependent on public transportation, places this megatrend front and center for strategic thinkers.

Environment

Global economic changes are increasingly impacting the public perception of agriculture's role concerning the environment. A growing urban population that is more distant from farming and ranching will challenge the views of growth and profit with environmental balance becoming more important. This can lead to legislation locally, regionally, nationally and internationally, which can impact the cost as well as the ease and efficiency of doing business in the agriculture industry.

Environmental issues and compliance are shaping the methods of farming and ranching and priorities in management. Expect future increases in geographic migration of certain agriculture industries as a result of environmental challenges both inside and outside the U.S.

Waste issues may benefit innovative business persons in agriculture who utilize waste products for energy, soil nutrients to improve soil health and to reduce costs. Some may package waste and sell it as plant food to urban households or sell to other sectors such as the grain industry to build up the organic matter in the soil.

The agribusiness manager of the future, regardless of the business model, will be required to track environmental practices and keep the nonfarm sector informed of these practices and initiatives. Regardless of the business model or enterprise, top managers will develop systems to obtain the most out of resources such as soil, water and air in a natural, biological and sustainable manner.

Government Policy

Government policy at the local, state, national and international levels will impact the competitiveness of agriculture. Regardless of the level of government, the agendas, priorities and the changes in leadership will need to be monitored by business people in agriculture.

The agriculture industry is a minority with a decreasing voice as more legislators, government officials and the public in general become distant from the industry. Stances on food safety, nutrition, protectionism to free markets, government support and subsidies to fund research and educate about agriculture will be critical to the health of the agriculture industry.

Module 1: Megatrends of Agriculture

The future is one of fewer voters and public representatives with a heritage or linkage to the agriculture industry. This will result in the need for farmers and ranchers to become more vocal to communicate concerns about public policy and how it impacts the industry and their specific operations.

PODCAST #5: How important is it for farmers and ranchers to get involved in public policy development?

A longtime board member of Farm Credit is quoted as saying, “Even a cowboy has to go to town.” This veteran was a very knowledgeable gentleman who served this country in the military. His comment is very thought provoking as agriculture goes under considerable change and scrutiny worldwide and deals with regulatory, policy and public issues.

As farmers and ranchers, we will be challenged to represent our industry at all levels including local, regional, state, national and international.

Let’s start with the local level which often includes dealing with issues such as property development rights and the urban/suburban producer interface. Some will look at this as a threat, while the veteran says, “Maybe there is opportunity if one looks at the cup half-full.”

At the regional, state and national levels, issues pertaining to water and mineral rights, and regulation including food safety and security, reporting, and paperwork are necessary evils. Keeping bureaucrats and technocrats within reason is an educational program in itself.

Now and in the future, dialogue cannot be an option, but a requirement that hopefully empowers the younger generation. Perhaps our biggest challenge will be finding the time to articulate a balanced perspective concerning our industry.

Domestic Economy

A general understanding of how to gauge the status of the U.S. economy and the direction of interest rates, inflation and consumer confidence is an important element of owning and managing an agribusiness. No, we are not making you into an economist, but with 70% of all farms and ranches supplemented by nonfarm income, business revenue or wealth to supplement operations, understanding this element is very important to beginning producers. Extra income or fringe benefits may be the pathway to cash flow or a dream of agriculture ownership.

The Index of Consumer Sentiment reported by the University of Michigan on a monthly basis can provide insight on the direction of retail and wholesale activities. The value of the dollar can influence the ability to export commodities in a global market. Assessing

Module 1: Megatrends of Agriculture

unemployment rates and overall inflation may be very useful in attracting and retaining a productive workforce or developing cash expense budgets for the business.

Understanding the elements that the Federal Reserve uses to direct interest rates may be useful in decision-making pertaining to debt structure or whether one should utilize fixed or variable interest rate options.

The Composite Leading Index and the Purchasing Manager Index provide the metrics that are predictive of the direction the economy three to six months into the future.

Sources of Economic Information:

- Business channels such as CNBC, Bloomberg or FOX Business.
- FRED (Federal Reserve Economic Data) app or website
- On an international level, *The Wall Street Journal* newspaper or *The Economist* magazine
- Farm publications, webcasts and seminars are devoted to business applications of economic variables. For example, low unemployment and higher inflation may lead the Federal Reserve to increase interest rates. At the opposite end of the spectrum, a slowing of economic growth and high unemployment may induce the Federal Reserve to stimulate the economy through lower interest rates.

Transition Management and Human Resource Management

Business transition management and human resource management can be major challenges, but also opportunities in the agricultural landscape.

Over the next decade, considerable farm and ranch assets will change hands as a result of generational shifts. While a majority of this will occur within families, a trend in the future will be nonfamily members becoming integrated into the business model. Complexity will occur when family members with little or no interest desire to sell, rent or lease their share to siblings or other owners who want to lead the operation into the future. Terms such as fair and equitable, buy-sell agreements, prenuptial agreements, retirement planning, long-term care, disability and life insurance will become important elements of the successful transfer.

Human resource management will be another important cog in business planning in the future for the growth and evolution of the business. Historically, many farms and ranches have been successful being independent and production-oriented. However, the future owner and manager will need to be savvy in people skills and interdependent in being able to work with employees, family members, landlords and key stakeholders such as accountants, crop and livestock consultants, legal counsel, lenders, suppliers, consumers and the public in general to be successful.

A high degree of emotional intelligence or people savvy will be a necessary component in a productive and prosperous business. Understanding the generational differences in

Module 1: Megatrends of Agriculture

up to five generations in the business world is critical. The challenge is that motivations, desires and work habits are all different with these generations. This evolution in the people element along with transition management provides a fertile landscape for challenges but also opportunities around every corner.

Resources for Transition and Human Resource Management

- Personality assessments, such as the DiSC Profile, True Colors, and Myers-Briggs allow one to determine how to communicate with others and also understand yourself and how others perceive you. These tools can be valuable in assembling teams, negotiating with customers and the public or communicating with family members and others.
- Some highly recommended books concerning human resource management and transition management are *Good to Great* by Jim Collins and *The Ultimate Gift* by Jim Stovall.

Summary

The catalysts for change discussed will shape a new business environment for agricultural and rural areas in the 21st century. Review of these megatrends should stimulate curiosity and provoke thought, discussion, strategy and action for your business plan.

This ends the first leg of your learning journey. Now let's get out of the blue sky and bring it down to your own business in your quest for success.