Ten Best Management Practices
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This isn’t a top 10 list; but, they are things that any producer can do and that 95 percent of producers don’t. If you’re looking for an edge or ways to get better, these would be a good place to start.

1. Coordinate revenue and cost management. Too many producers treat input and commodity pricing as separate issues. Every lending institution has an asset:liability committee (ALCO). When they price loans and set loan terms they consider their cost of funds, and their ability to match fund the loan for the period the loan rate is set or their ability to sell the loan so that someone else bears the risk of the cost of funds changing. Similarly, farmers who locked in $1000 a ton nitrogen may not have been unprofitable if corn was forward priced at $7 a bushel. Anyone can get lucky occasionally, but trying to outguess the market is a fool’s game. Focus on managing margins. (Locking in commodity prices based on what you think costs will be or locking in costs based on what you think commodity prices will be isn’t managing margins, it’s speculating). The best grain marketer I know uses a pricing system where he never hits the market high, but he always covers his costs. He has been farming over 30 years and says there has never been a year where there hasn’t been at least one opportunity to cover all of his costs with 80 percent of his 5 year rolling average yield.

2. What if scenarios and sensitivity analysis. This is simply contingency planning. Think about what could go wrong and what you’ll do if it does. Any good coach or general prepares a game plan or battle plan that considers alternative strategies to deal with different situations. The average manager may plan, but they tend to limit themselves to most likely outcomes an don’t spend enough time on contingency planning. Family business consultants often talk about the need to plan for the 4 Ds - death, divorce, disability and departure, and doing it at a time when things are going well so that the discussions are less threatening and emotional.

3. Monitoring and analysis. The most successful managers spend a great deal of time on monitoring and analyzing performance. They are much more likely to spot problems and opportunities before its too late. Business problems are like a cancer, they eat away at profits, cash flow and owner equity. But, spotted and treated early enough, they are often treatable. Good decision makers always use two analytical skills in solving problems. The first is perspective - they look at things from
multiple frames of reference. And second, they always look for the heart, i.e. the cause, of the issue. The reason they don't jump to conclusions is they have learned that every complex problem has at least one solution which is simple, obvious and wrong.

4. The 80:20 rule. This is simple recognizing that 80 percent of what we accomplish is produced by 20 percent of what we do. The management principle is one of doing first things first. Most people never accomplish their goals because they spend too much time doing second things first, i.e., what they know how to do, what they like to do, what is easiest to do and what is urgent. The most successful managers have figured out what the 20 percent are, established priorities and then put most of their time and resources into doing those things first. As much as possible, the other 80 percent get delegated to someone else or outsourced.

5. Autopsies. This involves evaluating the results of key decisions after the fact, whether things went well or poorly. What was overlooked, what assumptions were wrong, what should have been done differently, were there mid-course adjustments that could and should have been made, and if external factors or conditions played a part, are there any leading indicators or more detailed information that needs to be considered in future decisions. Most important, what did you learn? The objective is to cut down on repeating the same mistakes.

6. The 5 percent rule. Numerous studies have found that most sustained success comes from doing 20 things 5 percent better than from doing 1 thing 100 percent better. It is also true that the top quarter of producers in terms of profitability tend to be only about 5 percent better than the average, whether in terms of costs, production or marketing. But, they do it over and over again. Remember, the multimillionaire, future hall of fame baseball player with a .300 lifetime batting average only gets 1 more hit every 20 times at bat than the player who hits .250 and just manages to hang on.

7. Benchmark your performance. Most producers have no real clue how well they stack up against their competition. The majority think they're average or a little above. That's not possible. It's also not enough to know how you're doing compared to the average. How do you stack up against the top 25 or the top 10 percent. Numerous university studies have found $100 or more differences in net income per acre between the top 25 percent and the bottom 25 percent of farmers in the same region, producing the same crops even after adjusting for differences resulting from owning versus renting. A Kansas State study found about half the
difference was due to revenue and about half due to costs. This information is available from various state farm business farm management associations, agriculturally oriented accounting firms and some agricultural lenders. Peer groups are another possible option. The best case scenario is to be able to compare information at the enterprise level. It’s harder to come by, but worth the effort. Whole farm data can mask offsetting strengths and weaknesses.

8. Analyzing what to stop doing. The most successful companies and managers spend as much time analyzing and determining what they need to stop doing as they do evaluating new opportunities.

9. Getting the right people on the bus. Ultimately, it is people rather than things that take a business from good to great. Two pioneering management studies, both published as best selling books, *Good To Great* and *First Break All the Rules: What the World’s Greatest Managers Do Differently*, came to the same conclusion. The most successful companies are those that get the right people, in the right places, doing the right things and then managing them in a way that allows them to perform up to the best of their ability. Agriculture is still in its infancy when it comes to human resource management. In too many operations employees are still viewed and managed more as an expense than an asset.

10. The E-Myth principle. Every business has four constituencies: employees, buyers, input suppliers and funding sources. The objective is to do some grassroots research and find out the top 3 or 4 things that most frustrates each of these groups in dealing with businesses like yours. If you can eliminate several of those frustrations, you can become the supplier, customer, tenant, employer or borrower of choice.