

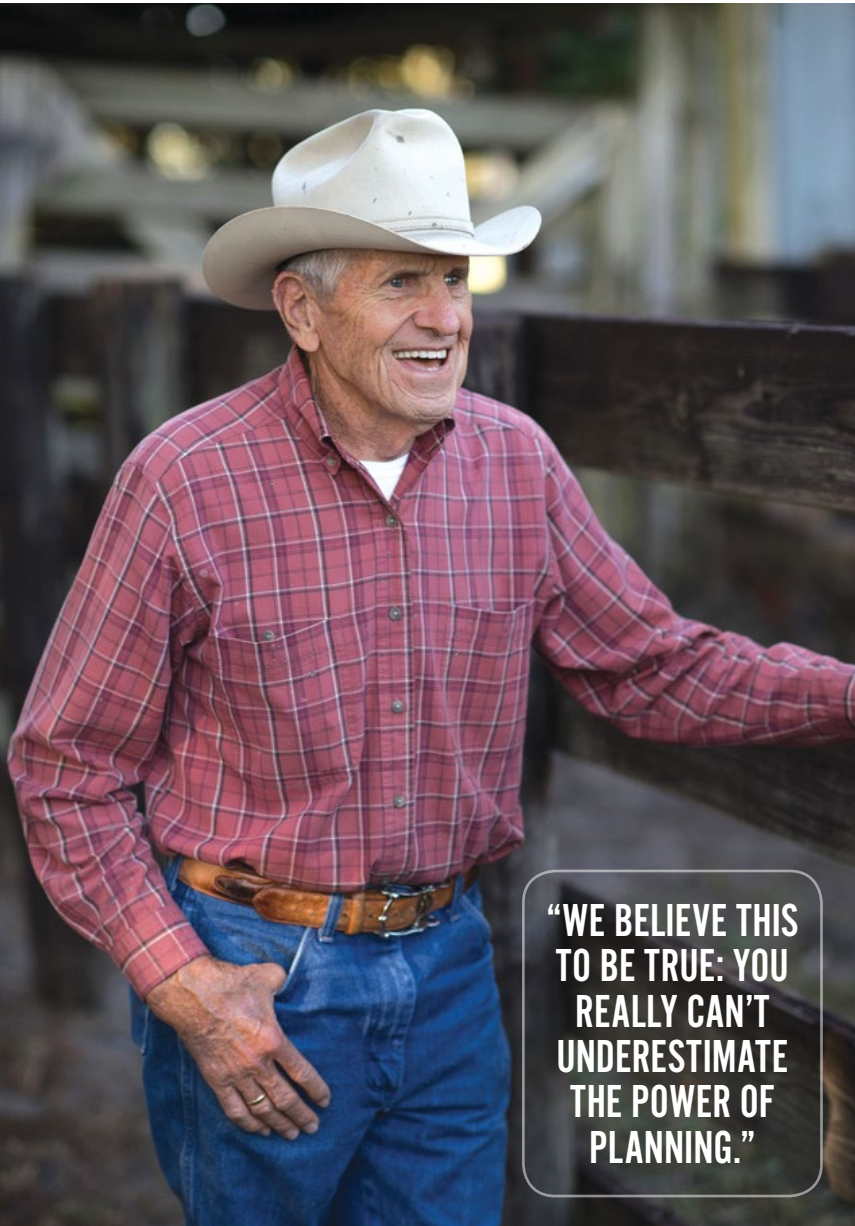
DECISION-MAKING ★ ★ ★ SUCCESS ★ ★ ★

MAKING SMART FINANCIAL MANAGEMENT
DECISIONS FOR YOUR FARM



AGAMERICA
LENDING

★★★ DECISION-MAKING SUCCESS ★★★



“WE BELIEVE THIS TO BE TRUE: YOU REALLY CAN’T UNDERESTIMATE THE POWER OF PLANNING.”

FARMERS’ BIG DECISIONS ARE MORE DIFFICULT TODAY THAN EVER, WHICH MAKES THE DECISION-MAKING PROCESS MORE CRITICAL THAN EVER. HOW DO AMERICA’S FARMERS TACKLE THIS CHALLENGE?

A recent article in the *Harvard Business Review* notes the increasing demands on agriculture. “Food demand is expected to increase anywhere between 59% to 98% by 2050,” according to the article. “This will shape agricultural markets in ways we have not seen before. Farmers worldwide will need to increase crop production, either by increasing the amount of agricultural land to grow crops or by enhancing productivity on existing agricultural lands.”

Farming is becoming a bigger and more complicated business. Different global markets open up for agricultural products. New technologies are introduced to boost production. Old standby chemistries are taken off the market due to regulatory concerns. With so many changes occurring on and around the farm and so much more information available to all of us today, are farmers changing how they make decisions, too?

Do farmers feel confident in their decision-making process?

★★★

Are farmers gathering more information to direct their decision making?

★★★

Or, does this process today look just like it used to?

★★★

ABOUT THE FARMERS.

More than 330 farmers from across the country completed the survey, and they comprise a very representative cross-section of the industry.

85%

More than 85% of them were male.

58½

Their average age was 58½ years old.

612

On average, they’ll plant 612 acres this year.

68%

More than 68% of them run family farms.



“FOOD DEMAND IS EXPECTED TO INCREASE ANYWHERE BETWEEN 59% TO 98% BY 2050.”

Everyone knows that a host of factors have combined in recent years to make farming more challenging. Whether it’s uncertain weather, a difficult economy, new insect and disease pressures or escalating land and labor costs, farming isn’t getting any easier for anyone.

Farmers must overcome more hurdles today, but the market remains strong for their products, which means farms must be run more intelligently and strategically than ever before, with a focus on the farm as a business, not just a hobby or even a passion.

The team at AgAmerica understands these challenges extremely well given its daily work with farmers of fruits, vegetables, cotton, livestock and other key crops. AgAmerica has also come to understand that many of a farmer’s decisions carry greater significance today.

To explore this issue further, AgAmerica surveyed growers from across the country to learn what sources they count on to research their most critical decisions, especially those of a financial nature (buying land, taking out a loan, selecting a bank, etc.) and how that process works within agribusinesses today.

START WITH THE RESEARCH.



RESEARCH ISN’T JUST ABOUT INFORMING DECISIONS. IT’S ABOUT PROTECTING THE BUSINESS, TOO.

“It’s smart to pro-actively manage risks,” observed Bryce Philpot, AgAmerica Lending SVP/ Co-owner. “While there are numerous variables farmers can’t control like the weather, commodity prices, disease, and pests, instead think about the variables you can control: contracts, crop insurance, your planting mix, machinery and scheduled repairs. We believe this to be true: you really can’t underestimate the power of planning.”

Regardless of how key decisions get made, the research process behind these decisions generally involves multiple people. Slightly more than one-third of the respondents (34.6%) said the farm owners conduct research by themselves, but owners at the bulk of these farms engage others in the process – a significant difference being whether or not experts outside of the business are consulted, too.

Nearly one-quarter of the respondents (24.9%) said people inside and outside of the operation (such as their accountant) provide input or perspective for key financial decisions. Slightly fewer (22.7%) said the owners limit the research to key members of the business but don’t include people outside of the business in this process.

ACCORDING TO FLORIDA A&M RESEARCHERS, THE EIGHT STEPS INVOLVED IN EFFECTIVE DECISION MAKING ARE:

	1. SETTING GOALS *		5. MAKING THE DECISION
	2. RECOGNIZING THE PROBLEM *		6. TAKING ACTION
	3. OBTAINING INFORMATION		7. ACCEPTING RESPONSIBILITY
	4. CONSIDERING ALTERNATIVES *		8. EVALUATING THE DECISION

* According to farmers, setting goals, considering alternatives and recognizing the problem threaten to hinder their decision-making process the most.

For those farms engaging people outside of the business, family or business attorneys, accountants and banking relationships are tapped most often for their expertise. Other popular information sources outside of the farm include ag retailers/equipment dealers (used by 55.6% of the respondents) and other trusted growers (53.1%).

Farmers, like any other business owner, should note that an outside perspective can provide more than just another opinion. For instance, accountants or lenders can identify opportunities that only an expert would know.

“When considering alternatives, be open to the advice and guidance outside experts can offer,” explained Brian Philpot, AgAmerica Lending President/CEO. “At AgAmerica, we encourage potential new clients to let us take an initial look into their financials. Allow us to show you some options, show you what we can do, how we can help, and what our programs can offer. Oftentimes, our team will have ideas and solutions you may not have thought of before.”

Despite the inherent risks and potential pitfalls associated with making big financial decisions, the decision-making process itself may not be challenging for growers given how effectively most of the respondents said their farm handles it right now. Researchers at Florida A&M University have done extensive work regarding what they identify as the eight primary steps comprising the decision-making process. Respondents to this survey generally report handling all of them fairly well while acknowledging that some elements of the process challenge them more than others.

According to the farmers we surveyed, setting goals, considering alternatives and recognizing the problem threaten to hinder their decision-making process the most. Interestingly enough, these three challenges are the most prevalent regardless of how you segment the audience. All the farms we surveyed — family and non-family, large and small — identified these as the most challenging parts of their decision-making process.

“WHEN CONSIDERING ALTERNATIVES, BE OPEN TO THE ADVICE AND GUIDANCE OUTSIDE EXPERTS CAN OFFER.”

The Role Gender Plays in Decision Making

Agriculture is undoubtedly a male-dominated industry, but this survey featured enough responses from female growers to draw some interesting parallels between the two genders' approach to the business.

Demographically speaking, the women were a bit younger than the men, farmed slightly smaller operations (415 acres vs. 648 acres) and were more likely to define themselves as fruit-growing operations (42% of the women described their farm this way compared to 25% of the men).

The primary differences center around how decisions are made on farms led by women compared to those led by men and the amount of planning that occurs at farms led by the different genders. Female respondents repeatedly described a much more inclusive decision-making process and more emphasis overall on planning at their operations.

For instance, when asked, ‘Who makes the farm financial management decisions at your operation?’ less than 15% of the women said the decision is made by just one person compared to the 43% of male respondents who said this. Rather, more than 53% of women said decision making includes both ownership and management at their farms, whereas that joint approach is employed at 32% of the male respondents' farms.

Further differences could be found when examining the two genders' approach toward business plans. Simply put, women appear to be much bigger fans of the plans. This was born out by the fact that more than 96% of the women said they believe having a clearly defined business plan helps them meet their goals compared to 81% of men. And only 22% of women reported that their business “lacks any sort of formal business plan” compared to 32% of men.

Finally, men and women reported considerable similarities in the decision-making research process at their farms with one clear difference — while men and women rely on outside sources for information fairly equally, women use online resources for their research much more often than do men (64% to 43%).

53% of women said decision making includes both ownership and management at their farms.

32% of men employ the same joint approach at their operations.

WHO MAKES THE FARM FINANCIAL MANAGEMENT DECISIONS AT YOUR OPERATION?

BUSINESS PLANNING.



HAVING CLEARLY DEFINED GOALS AND PLANS TO ACHIEVE THEM HELPS THOSE GOALS BECOME REALITY.

When confronted with the most difficult decisions, business owners often turn back toward their business plans for guidance and direction. The business plan — written months or even years in advance in an environment devoid of the stress and emotion that often complicate decision making — should offer business executives a firm, reliable reference point or guide by which they can navigate these issues and evaluate their options.

Farmers clearly believe in the value of a business plan — more than 83% of the survey respondents agreed that having a clearly defined business plan that outlines their goals and their plans to achieve them will help those goals become reality. Interestingly, this number climbs to more than 90% when you only consider the responses from growers planting 1,000 or more acres in 2017, which begs the chicken-or-the-egg question of whether growers committed to a business plan are more likely to build larger operations, or if growers become committed to a business plan after their operation becomes large.

Of course, believing in the value of business planning doesn't guarantee a farm will have such a document. Some farms have defined business plans, some have long-term goals for the operation but not a formal business plan, and still others get bogged down by the day-to-day challenges of running the farm. In fact, the respondents were fairly equally distributed across these three groups.

In addition to focusing operations toward achieving business goals, having an established business plan and complete set of financial records will help land owners in other ways, such as navigating the underwriting process. They can essentially “fast track” their loan application.

“We're more comfortable lending a farmer money if they have a well-written and carefully thought-through business plan in place,” acknowledged Jackie Toenes, Chief Credit

WHICH OF THE FOLLOWING STATEMENTS BEST REFLECTS YOUR VIEWS REGARDING THE BUSINESS PLANNING PROCESS FOR YOUR FARM?

39%

We have a clearly defined business plan/set of goals that everyone in ownership and management understands and works to achieve.

31%

We know what we want to do with the business, but we lack any sort of formal plan for achieving that growth.

30%

The owners have goals for the business, but we struggle to maintain focus on the big picture throughout the year and tend to get distracted by immediate farming issues.

Officer of AgAmerica Lending. “Seeing that the farm has a plan gives us more confidence in that business and helps mitigate our risk as the lender.”

So, why do relatively few farms have clear business plans when so many of them profess to believing that such a plan will likely help them achieve their goals and build their businesses? Respondents' reasons for not creating a plan largely fall into three buckets — no need, no time, and no experience.

For the family operations in this research, business planning is a multi-generational affair. Slightly more than half of the respondents (55.3%) report that the older and younger generations are equally involved in driving the planning process while slightly more than one-third of the respondents (35.3%) say the older generation solely drives the planning process at their operation.

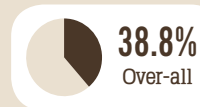
WHAT IS THE PRIMARY REASON YOUR BUSINESS DOESN'T HAVE A CLEAR BUSINESS PLAN?

We don't see the value in a written business plan. 30.3%

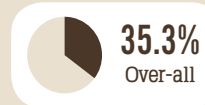
We can't ever seem to dedicate time to planning. 26.3%

We don't really know how to create a true business plan. 21.7%

DECISIONS MADE SOLELY BY THE OWNER OR PATRIARCH



DECISIONS MADE JOINTLY BY THE OWNER/PATRIARCH AND TOP MANAGEMENT



WHO DECIDES?



FARMERS ARE CLEARLY SPLIT REGARDING HOW MANY PEOPLE TAKE PART IN MAKING THE DECISIONS.

Regardless of the research process, a decision ultimately needs to be made, and farms generally fall into one of two key categories:

- Those at which decisions are solely made by one person — the owner/patriarch or clear leader of the farm. Nearly 39% of the survey respondents said this describes their operation.
- Those farms at which key decisions are made jointly by ownership and top management, which account for 35% of farms.

Deeper analysis of the survey results provides further insights that better define the growers who comprise these two camps. For example, more than 53% of the younger survey respondents (those 44 or younger) called decision making a joint effort between ownership and top management. This contrasts sharply with the respondents who aren't part of a family farm. Not surprisingly, these younger operations centralize their decision making even more heavily with ownership — more than 60% of the respondents from non-family farms said key decisions are made solely by ownership.

Given that most of the family farms report they plan to pass the business to the next generation, this emphasis on collaboration in the research phase and the decision-making process will likely continue increasing, especially as farmers' decisions become even more complicated.

Ultimately, running a business means making decisions all the time, and this is certainly true for farms. As illustrated by this research, most farmers feel confident about the decisions they make and the process they use to make decisions at their farms. These farmers approach decision making in various manners that include involving different people, using different information sources, and taking place along different timelines.

At the end of the day, the details of the process don't matter nearly as much as the end result. Each farmer just has to determine the process that works best for them and for their farm.

About AgAmerica Lending

Whether you are expanding your existing ranch, buying a farm or making long-term improvements to your agricultural land, AgAmerica can custom-build a loan solution that fits your needs. We work with ag industry professionals of all types, so we understand you and your unique financing needs.

AgAmerica is especially committed to working with multi-generation farm families to help them finance the future of their increasingly diverse operations. For example, our Agricultural Farm, Ranch, & Timberland lending program has no standard prepayment penalties, which is different from programs offered by other agricultural lenders. That means you can pay down your AgAmerica loan or line of credit at your leisure, on a schedule that works for your operation.

For more information about AgAmerica Lending, visit us at www.AgAmerica.com or call us at (844) 516-8169.

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