

A new generation sees superior management skills as key to successful business expansion

COVER STORY

GET BETTER AS YOU GROW BIGGER

BY MIKE WILSON

YOUNG FARMERS ARE tackling new growth opportunities as a generation of farmers begin exiting the business. But this change hasn't been easy by any stretch. Just ask the farmers who are going through it firsthand: folks like Grant, Dennis, Duane and Blake Noland of Blue Mound, Ill.

In the past five years, the Noland grain operation has more than doubled in size, to 5,500 acres — and there's no letup in sight.

chairman or senior partner, or simply take on new life challenges.

The result is that growth opportunities are coming fast and furious for young farmers. But the avenues to grow that worked for Dad won't work today.

"We knew that to stay competitive and have a good quality of life, we had to expand the farm, and couldn't do it just by owning our own land or focusing on our own immediate area," says Duane,

career in banking. He served as a state senator and now is CEO at the state's rural electric cooperative association, but still comes home to help at planting and harvest. Dennis, 55, manages most of the agronomy and equipment, while Grant, who worked at ADM after college, looks after the books and marketing. Blake, 30, helps with farm work but also has a full-time job in the seed industry.

GROWTH PLAN

Grant returned to the farm in 2009 as grain prices began to boom. "The farm was in good shape financially, but we needed to decide if we wanted to grow to compete and afford new technology. And, if so, how?" he says.

The Nolands drew up three- and five-year growth plans that focused not just on expansion, but also better management and lower production costs. They spent three years developing and growing their brand and putting a marketing plan together to let people know they were looking to grow. They talked to current landlords while developing a prospect list for new landowners.

"We went from a business that

"There's value in knowing people who understand what you are going through." — DUANE NOLAND

"We're going to see more growth in the next five years than we have in the past 10," predicts 32-year-old Grant, who manages the business with his uncle Dennis.

The Nolands are on the front lines of sweeping change in U.S. agriculture. Farm Futures' most recent surveys show 20% of farmers plan to leave the business in the next five years, and the main reason is not poor prices (see story on Page 32) but simply age — they're ready to find a new role as the farm's board

Grant's father.

Instead, they're ramping up management skills as the business expands.

"We knew we could see some pretty drastic financial impacts if we made no effort to get better as we got bigger," adds Grant. "We saw that even when the farm went from 2,500 to 4,000 acres. It stresses you in so many ways, from timeliness to finding competent help."

Duane, 60, farmed with his father in the 1980s and '90s after a brief



Three generations of Noland farmers: Dennis (left), Duane, Hudson, Blake and Grant.

wasn't viewed as interested in growth to actively portraying ourselves as interested in growth," says Grant.

For a few years nothing happened — until 2011 when new cash rent opportunities trickled in. They soon began to get calls from owners looking for a new tenant and referrals from friends — mostly word of mouth. The farm began to grow at a 5% to 10% annual clip.

NEW CHALLENGES

With that growth came a whole host of management and financial challenges. Their first goal was to lower costs and raise revenue by taking more control of input and sales decisions and applications. The Nolands added on-farm storage to help identify the most advantageous end users. The farmers converted an old machinery shed to store dry fertilizer and added tanks

for 28%, 32% and liquid starter fertilizer.

"We've been a lot more conscious about costs," says Duane. "We made those changes so we can take delivery and buy when prices are best."

The farm has become much more conscious of the vendors they work with, too. Buying decisions aren't just based on relationships or loyalty.

"It's created more management work than in the past when you provided someone a list of every product you needed for the year," admits Grant. "Now we identify each input separately and identify each company we need to work with. We informally have them compete through a bid sheet, but long term we want to have sustainable relationships with the suppliers we work with.

"By having our own storage and doing our own applications, we

have accepted more of the work load, and we feel the price point should reflect that," he adds. "Obviously, our suppliers should make money, too, but ultimately they're never touching the product if we're picking up, storing and applying the product, so they have less or no cost involved. We want our price to reflect that."

INTERDEPENDENCE

Another sea change in today's young manager mentality is a focus on interdependence, not independence. Grant helped organize an informal peer group of young farmers who also work in multi-generation farms — many who share similar management challenges. They not only collaborate on volume discount input buying, but also offer advice and share information, like current market rates for labor.

"I strongly believe interdepen-

dence is important and allowed us to have financial savings by working with others,” says Grant. “It’s allowed us to have access to additional and better information.” Adds Duane: “There’s value in having a sounding board. If there are others in that situation, how did they handle it? There’s value in knowing people who understand what you are going through.”

That informal peer group helps the Nolands work out deals that are mutually beneficial for suppliers and the farm.

For example, they were able to identify an aerial applicator from outside their region who was keen to grow market share. He agreed to apply fungicide for the Nolands, who saved costs by nursing the applicator with their own equipment and labor. They gained efficiencies by collaborating on product and rates with the other farmers in the group.

“This allowed us to better control the timing of application, and better quality of product allowed us to get some cost savings,” says Grant.

As the farm expands, the Nolands are well aware that there is local competition for land. But they also know there are other ways they can collaborate with neighbors for mutual benefit.

“Whenever you have the ability to separate those things out and say, ‘We can work together on certain things,’ that’s something that’s really powerful,” says Grant.

FUTURE CHALLENGES

So what keeps young farmers like Grant Noland up at night? How can you be ready when a growth opportunity presents itself?

“The hard part is not knowing what’s coming, and when it does come, being ready for it,” says Grant. “When it comes, can you finance it? Is it a good fit with your current business? And can we do this with no surprises for the lenders?”

The Nolands want to make

BIG FARMLAND SHIFT COMING

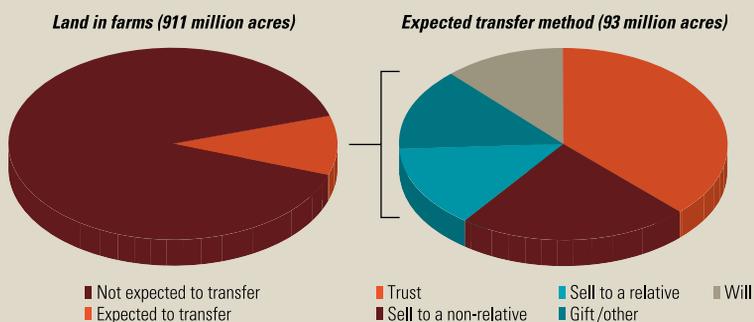
It’s no secret that the farm population is getting long in the tooth. A 2014 USDA survey showed that about a third of principal farm operators were at least age 65, compared with 12% of self-employed workers in nonagricultural businesses.

According to the survey, farmland owners planned to transfer 93 million acres from 2015 to 2019 — or 10% of all land in farms. They’ll do it through a variety of means, according to the survey. Landowners anticipated selling 3.8% of all farmland, with just 2.3% to be sold to non-relatives. A larger share of land (6.5%) is expected to be transferred through trusts, gifts and wills.

The share of farmland available for purchase by non-relatives in 2015-19 will likely rise above 2.3%, as some individuals (or entities) that inherit land may choose to sell it. And those who inherit land but don’t sell it may decide to rent it out to farm operators.

In 2014, 39% of all farmland was rented and 61% was owned by farm operators.

LAND IN FARMS EXPECTED TO TRANSFER IN 2015-19



Note: Data exclude Alaska and Hawaii.

SOURCE: USDA, ECONOMIC RESEARCH SERVICE AND NATIONAL AGRICULTURAL STATISTICS SERVICE, 2014 TENURE, OWNERSHIP, AND TRANSITION OF AGRICULTURAL LAND (TOTAL) SURVEY.

sure quality does not slip during a growth spurt. They also want to keep learning from the mountains of data that are being collected in their operation. On the management side, the Nolands use Granular, a cloud-based program that helps track logistics and other key benchmarks (see Page 44 for more).

Another challenge is to make sure the right people are focusing on the right tasks. Expansion has allowed each person to develop their own special strengths. In the Nolands’ case, Dennis prefers crops and equipment work, while Grant

prefers business and management chores. They defer to each other’s expertise to create more overall efficiency.

“Two years ago we decided it was more important in my role for me to work on the business and less in the business — to focus on looking at everything within our operation, line item by line item, from a cost and revenue component,” says Grant.

Adds Duane: “We needed someone who was focusing on management and planning year around — not just doing books in the winter.

We've been able to hire more people to work on equipment, which frees up Dennis to work more on agronomy, one of his specialties."

Lastly, communication has become more important as the farm has added more full and part-time labor. That includes employee performance reviews, coaching and training.

Dennis and Grant meet multiple times throughout the week to give each other status updates on projects, and at the end of the month the farm has a team training session on technology. Group texting is often used among team members.

"It's communicating the business side of the farm, as well as the operational side, and making sure everyone is on the same page," says Grant. "Our staff includes people right out of high school to senior folks near retirement. That's a harder part of the job today than it used to be."

Being transparent is also impor-

THE PHANTOM FARM BUST

Earlier this year the mainstream media warned of a coming farm bust, based on a supply glut and weak prices. Some farmers do face severe financial pressure if grain prices don't turn around. But based on our most recent survey, the farmers leaving the business aren't being forced out. They're just ready to move on.

According to our January survey of 1,100 farmers, some 20% of farmers are poised to exit the industry in the next five years. Only 1% of the expected retirees are financially vulnerable (high debt, losing money) compared to almost 4% nationwide. Only 12% of the land may come on the market.

Earlier this year an Illinois ag banker had this to say: "The farm economy is preparing to shed the next layer of farmers — those who are near retirement age or at a point where their operations cannot sustain the current debt load and family living costs. This is about 20% of my portfolio in the next five years."

tant, especially in a family-owned business.

"It's difficult enough for families to get along, and then you throw in a business, there's more areas for people to disagree, so we really

work at communicating," he concludes. "We want to communicate better not only with each other, but with landowners, partners and suppliers." **FF**