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American Farm Mortgage & Financial Services®
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# The Farmer's "Market"

## What's Inside:



## Message from the President

ALAN HOSKINS

The acronym "ROI" is heavily utilized in today's vernacular. Given the rising cost of many items utilized in farming and ranching operations, maximizing the return on funds invested is an extremely sound business goal. However, an item of significantly greater value than money, time is frequently absent from the ROI discussion landscape. Particularly during this period of the year, the return on the farmer or rancher's time should be of utmost consideration.

The first quarter of any year is when the lengthiest customer and lender conversations occur. Not only does the farmer or rancher utilize time for the meetings, but substantial efforts are expended in preparing for the encounter in the form of compiling financial information, coming year projections, etc. All of these labors are a true time investment as it eliminates the producer's ability to perform other critical job functions. As any farmer or rancher will attest, there is never a point in the year where there is a shortage of things to do.

If you were asked about the return on your time invested with your banker/lender, how might you respond? Other than receiving the typical "Yes" or "No", how would you communicate what you learned?

All farming operations are unique. It is a huge benefit to you when your lender and financial institution know the needs of your specific farm/ranch operation, and long term relationships will serve you well. It is also good to see how your loyalty is being returned in the form of thoughts and ideas of what you might consider as opportunities for improvement. In addition, to receiving positive feedback regarding the things you are doing well with your farm/ranch operation.

Please remember the interaction between the customer and banker/lender is designed for the sharing of information and ideas. To ensure both benefit, pre-meeting planning is vital. It is very likely you as the producer or rancher are asked to answer questions regarding your past history and future plans. How are you preparing for the meeting to maximize the benefit of interacting with what should be one of your key advisors? If you haven't historically done that, you can always start today. Ask yourself what you would like to see different relative to the knowledge you gain during the interaction with your banker/lender. It is always a good idea to reach out to other farmers or producers in regards to how they receive benefits from their banking/lending relationships.

Your business is very valuable to the bank or other financial services firm you choose to employ. Please hold us accountable in utilizing our knowledge and experience to deliver the value you need to achieve the goals for your farm or ranch. Remember, YOU, the customer, are the sole reason we exist as businesses.

# Farming for ROI: Three Tips to Ensure Equipment Purchases Are an Investment Versus a Cost

By Clinton Griffiths
AG Web

Every significant purchase a farmer makes is measured against its ROI. While equipment isn't always an annual purchase, one ag lender says there are things a farmer can do to ensure equipment purchases add to a farm's balance sheet rather than subtract profits. Alan Hoskins, president of American Farm Mortgage, says there are three ways farmers need to evaluate equipment purchases.

1. Pencil Out Profits from an Equipment Purchase.

"I enjoy listening to farmers explain how a piece of equipment is going to make them money over and above the cost of the equipment," Hoskins says.

For example, if a farmer is looking at trading a combine he sees his profit improving thanks to newer technology. If a farmer is considering buying a planter with RowCommand, for example, what will that technology mean in terms of cost savings for seed?

"There's increased revenue opportunities associated with the trade farmers need to factor in, not just the price of the trade itself," he adds.

2. Weigh as an Investment Versus a Cost.

"If we were having this conversation 25 years ago, we'd be talking about guidance and we'd say, 'how much longer could you run today with guidance? Because you have a guidance system today, it is obviously so much more than that," Hoskins says. "It truly is about the investment versus the cost because we're talking about revenue opportunities today that candidly just didn't exist 20 years ago."

3. Decide on Purchasing New Versus Used.

"We've seen equipment values rise dramatically over the past four to six months simply because of commodity values," Hoskins says.

If a farmer is running new equipment, it's important to be mindful of their cost per acre versus what it might be if he ran equipment that was one or two years old.

"One of the things that's really coming into play, however, is the availability of both new and used equipment, which changes the conversation a little bit," Hoskins says. "Today that decision of whether or not to trade may need to be made a little bit quicker than what we've historically seen simply because the supply of really good equipment is so limited today."


# Ask these 3 Questions Before Any Farm Investment

By Sara Schafer
AG Web

The tide has finally turned. After seven years of depressed commodity prices, crop farmers are now staring at financial opportunities versus financial challenges.

Use this market rally to lock in profitable margins for this year and future years. That includes managing both the revenue side and the cost side, says Steve Nicholson, RaboResearch senior analyst for grain and oilseeds. These prices will encourage production, resulting sooner or later in surpluses and lower prices.

In addition, high prices for commodities are soon followed by higher input costs. Nicholson says higher input prices could be in place as early as 2022. Additionally, input prices don't decline at the same rate as commodity prices.

"Now is a time to not forget all the lessons we've learned in the lean years," he says. "We can't lose sight that you have to be the low-cost producer to survive long-term."

Farmers can take many paths on the road to being a low-cost producer. Essentially, you are trying to tailor your investments to bolster your strengths and minimize your weaknesses, Nicholson says. Each expense must add value and efficiency to your farm.

Before making any investments this year, Nicholson suggests asking these questions:

- Do you need it?
- Does it make your operation more efficient?
- Does it fit into your long-term plan, or is it a short-term solution?

"It's a great time to sit down with your banker and think about what you need to do to be in a better place in a year or five years from now," he says.

**Take A Strategic View of Your Farm**

With your long-term goals in mind, consider ways you can make strategic investments and ensure profitability. This can come in the form of a new business initiative, better grain marketing or cost control. Nicholson suggests considering the following items:

**How can I improve my working capital?** Positive working capital is a sign of a healthy business, Nicholson says. The higher the ratio (above 1) of current assets to current liabilities, the more the operation can pay short-term liabilities and debt commitments and fund day-to-day operations rather than take on debt to run/grow the business.

**Can you add a new revenue opportunity?** This could include researching new crops such as non-GMO row crops, high-protein wheat or a niche crop. Or, is there a new service you could offer in terms of custom work?

**What investments can you make to increase crop productivity?** From a land management standpoint, this could be cover crops, tile, soil conservation structures, etc.

**How can you become a better grain marketer?** Everyone gets caught up in the emotions of the markets, Nicholson says. At today's prices, consider booking at least 25% to 33% of your average production. "That's a good place to start," he says. "You'll sleep better, your spouse will sleep better, and your banker will sleep better. Then, put in an order a nickel down from what you think the top will be. Those wish orders tend to get hit at some point."

**Can you take a proactive step in pricing inputs?** Talk now with your input providers on anything you can book now for next year's crop, Nicholson suggests. "Take some risk off the table if you can," he says. "I would not be bashful about asking. The worse thing they can say is no. If you're a good customer, they are going to want to keep you happy."

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