

MANAGEMENT & LIFE MINDSET



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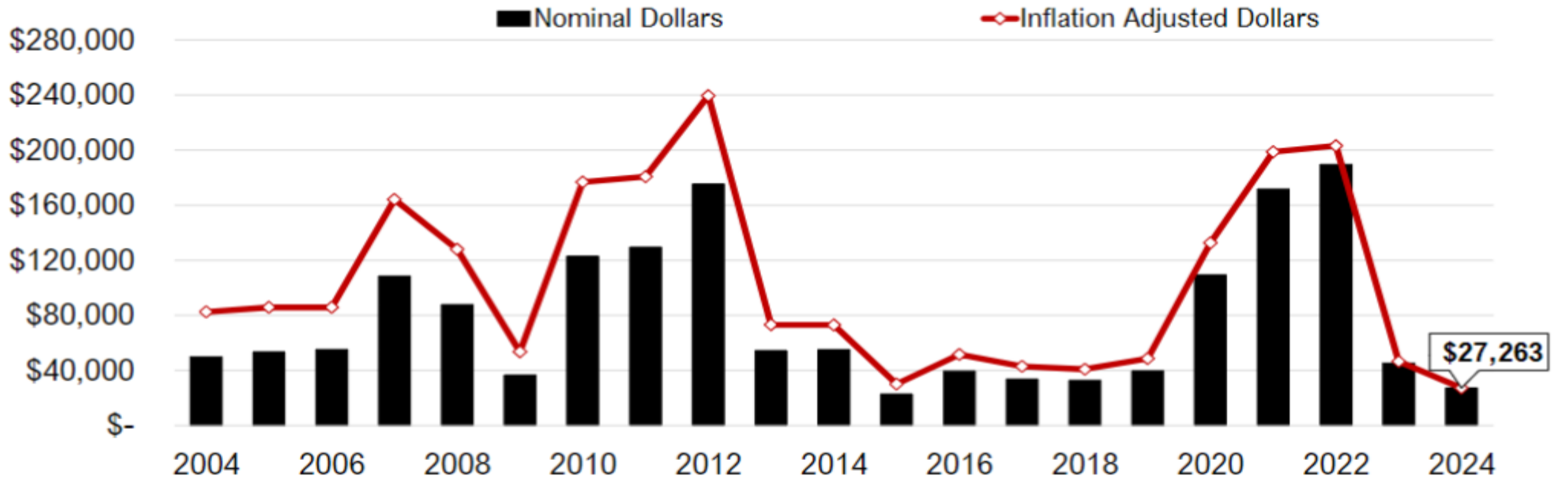
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January 6, 2026

Median Net Farm Income



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\$27,263

median net income in 2024

-40%

change in median net income from 2023 to 2024

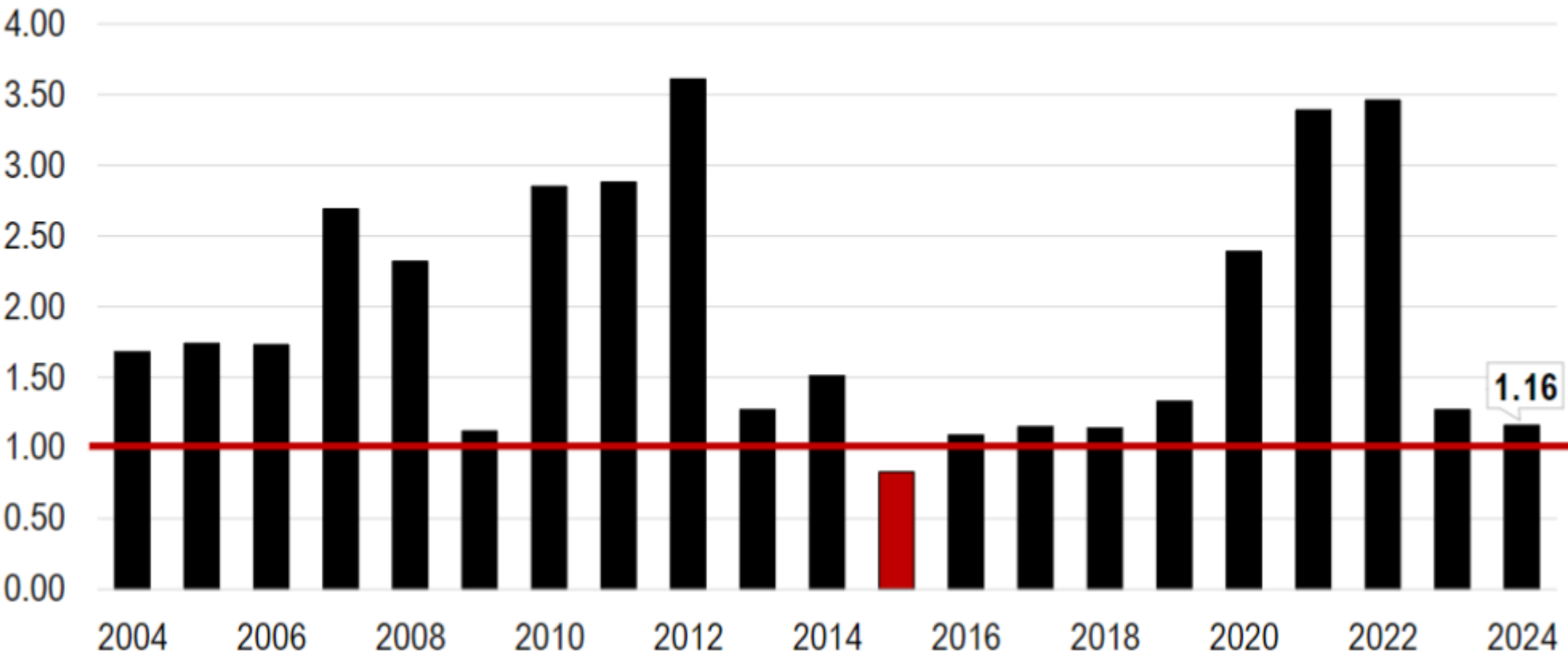
\$83,300

average net income in 2024

-9%

change in average net income from 2023 to 2024

Debt Coverage Ratio

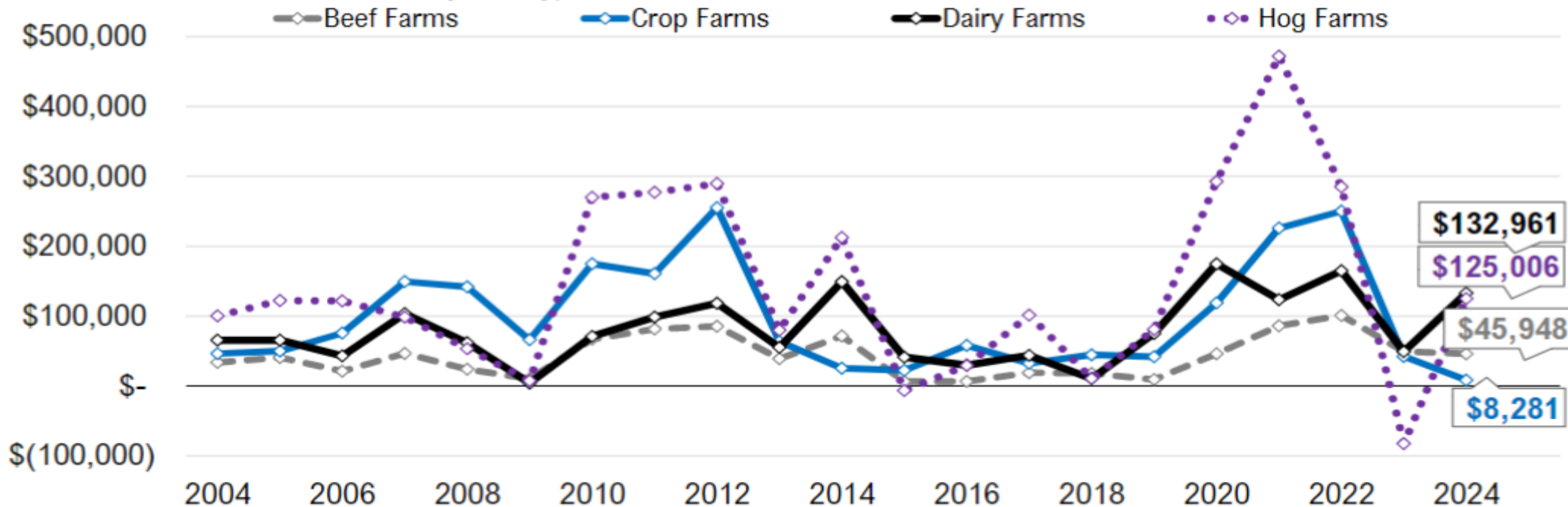


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Median Net Farm Income

FINBIN Database, All States, sorted by farm type



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(-7%) 

Beef farms change in
median net income

(-80%) 

Crop farms change in
median net income

(+170%) 

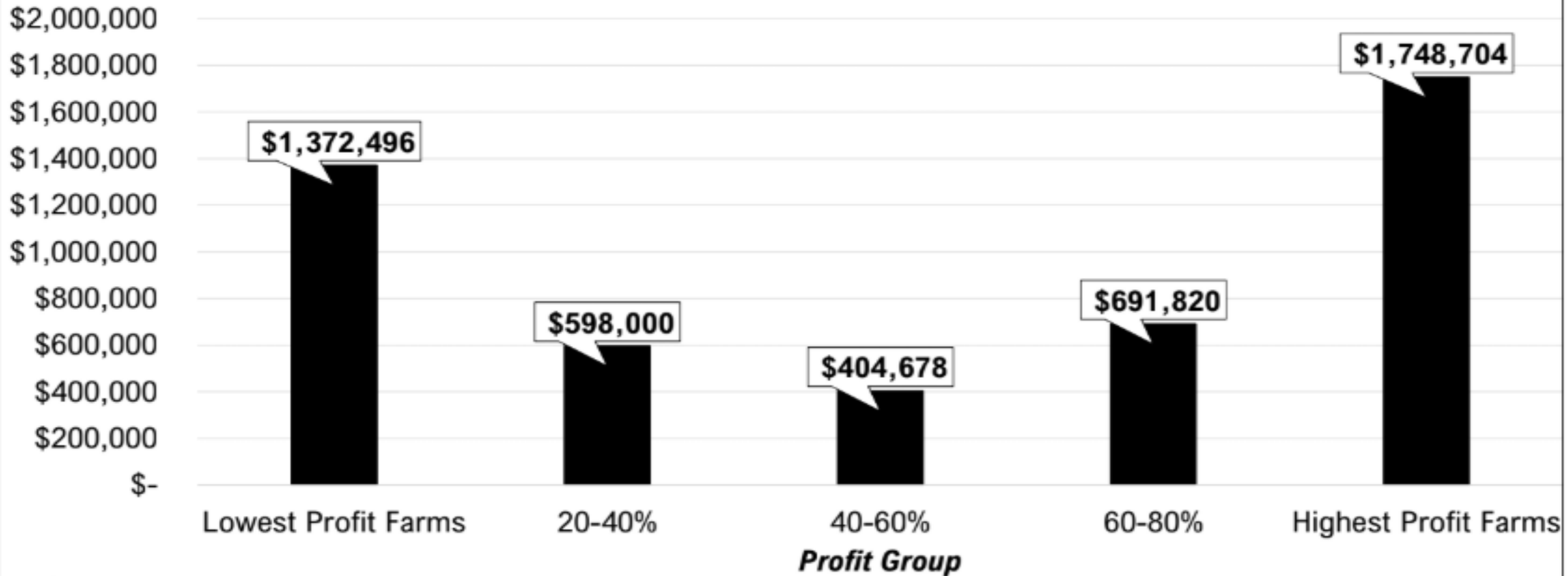
Dairy farms change in
median net income

(+251%) 

Hog farms change in
median net income

2024 Average Gross Revenue by Profit Group

FINBIN Database, All States, **Crop** Farms



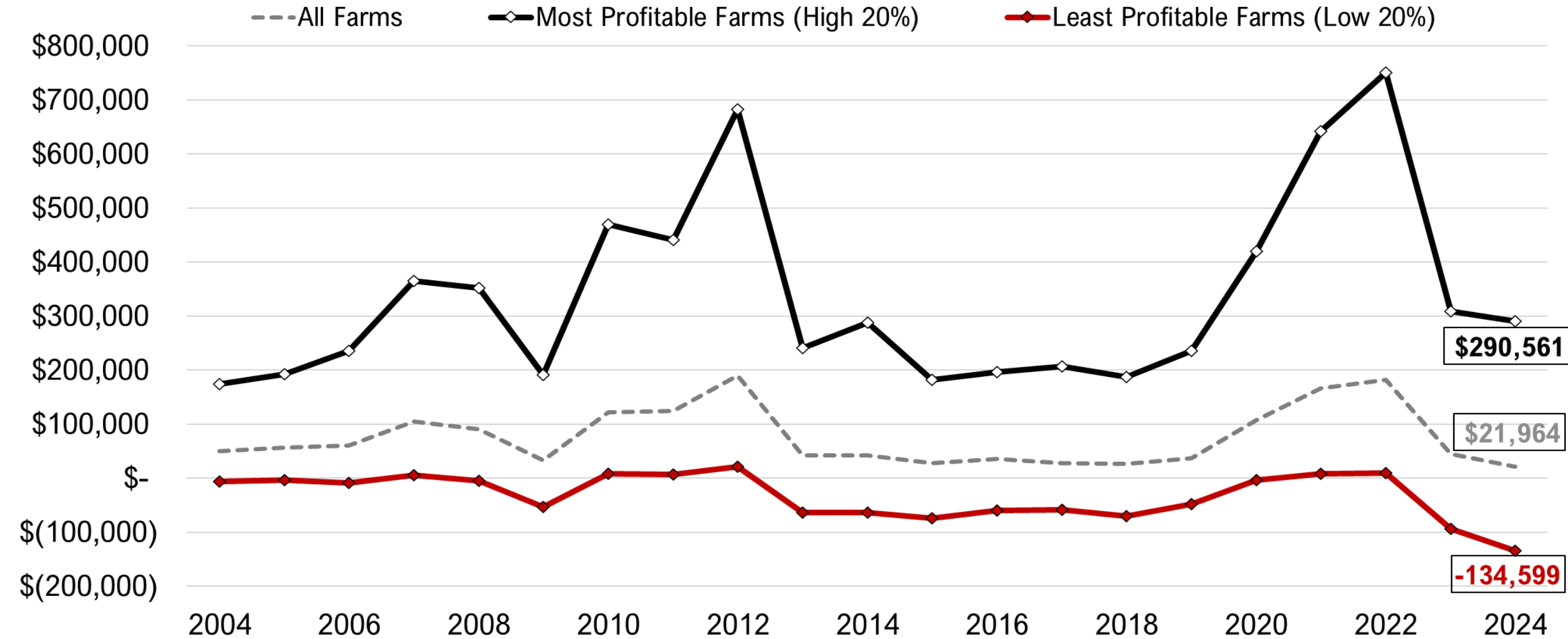
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The Goalposts are Back!

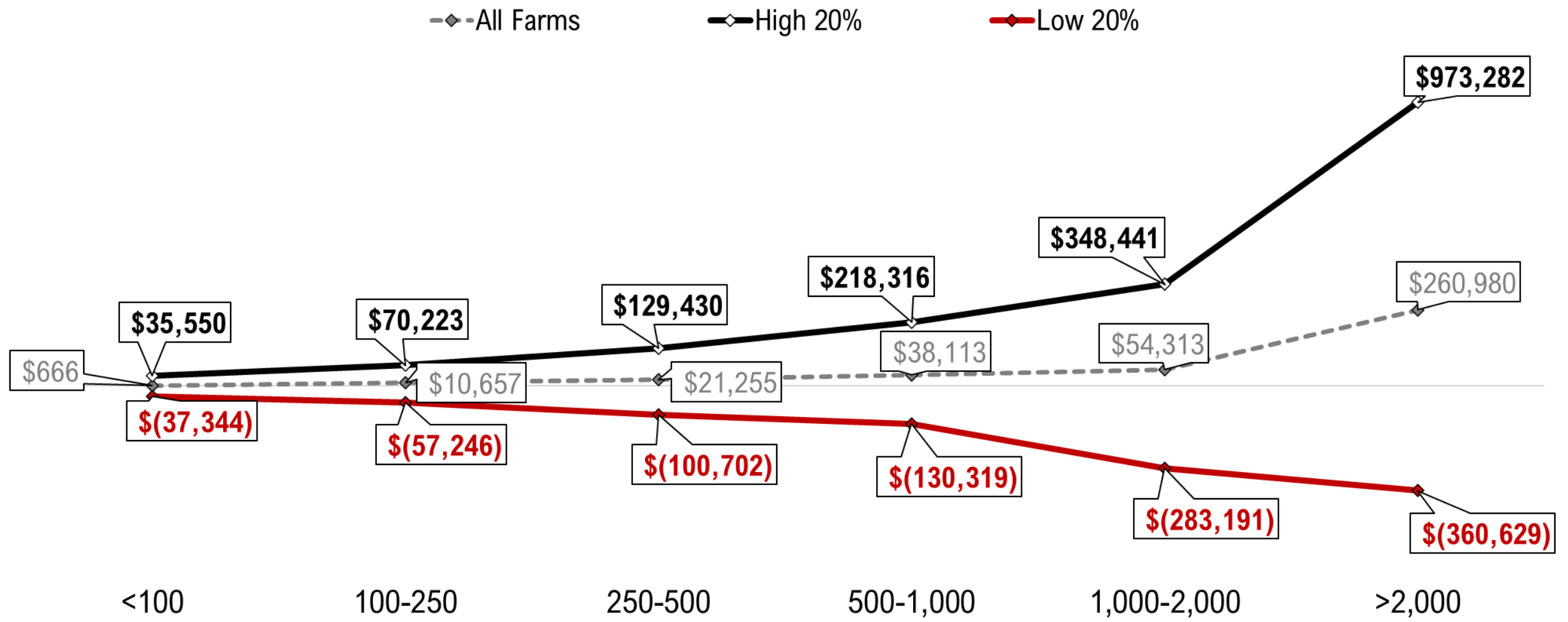
Median Net Farm Income by Profit Group

Data: Minnesota, Sorted by Profitability Group



Median Net Farm Income by Farm Size in 2024

Data: Minnesota, All farms, Farm size measured by gross revenue in thousands of dollars



Four Pillars for Business & Financials

Blocking & Tackling Basics

- Production excellence/cost efficiencies
- Cost management
- Marketing & risk management
- Capital efficiency

“5% better than your peers in each area”





Management Mindset

R.E.M. Gameplan to Navigate Adversity, Growth & Transition

Respond = Development of strategy, tactics, metrics
Execute = Action executed with defined outcomes
Monitor = System or processes for ongoing monitoring

Management Mindset Checklist		Check the appropriate boxes.		
		Respond	Execute	Monitor
1.	Establish written goals: business, family & personal			
2.	Know cost of production by enterprise			
3.	Know breakevens on major revenue sources with operational plan in place to achieve outcomes			
4.	Develop a monthly or quarterly cash flow			
5.	Financial sensitivity & scenario analysis in production, cost, prices, etc.			
6.	Utilize key financial ratios & business metrics in management			
7.	Written marketing plan: commodity and/or value added			
8.	Written risk management plan: insurances, SOPs, compliance, will, estate plan			
9.	Informal or formal advisory team that meets periodically			
10.	Development of a transition management plan			
11.	Separate family living budget with investment plan or compensation plan			
12.	Deliberate educational plan for owners, management & employees			

R.E.M. Gameplan Key		
Score	Color	Mindset Level
31-36	Super Green	Very High
26-30	Green	High
20-25	Orange	Average to Above Average
15-19	Yellow	Low to Moderate
0-15	Red	Very Low

Total # of Check Marks			
Your Overall Score			

Management Mindset Exercise

- After completing the Management Mindset: R.E.M. Gameplan, what are three areas/points in your business that you will continue, three areas/points for improvement and three areas/points that you would eliminate?

<u>Three Areas/Points to Continue</u>	<u>Three Areas/Points to Improve</u>	<u>Three Areas Points to Eliminate</u>
1.	1.	1.
2.	2.	2.
3.	3.	3.

Quote for the Quarter Century

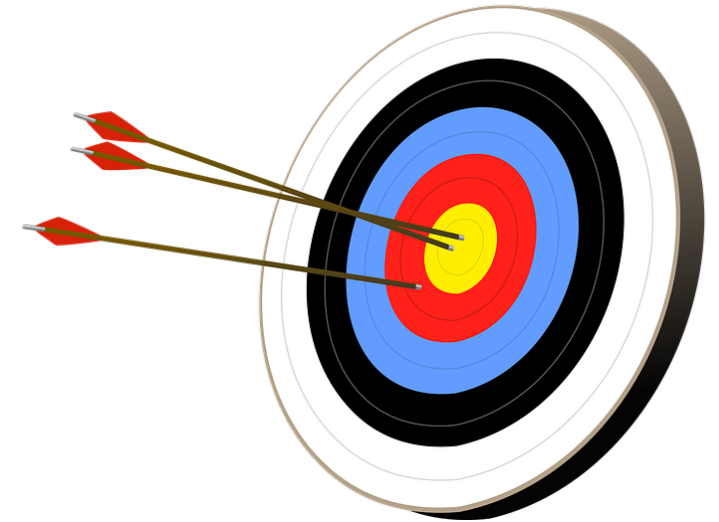
“The opportunity for business and personal prosperity is not about the size, the enterprise or the next big thing. It is about being a ‘five-percenter,’ meaning being a little better in many components of production, operational efficiency, marketing, risk management, finance, human resources and in the focus on your values and goals.”



Goal Setting

- 80-16-4 Rule
- Six degrees of goal setting
- Short term- 1 year or less
- Long term- 3-5 years
- Goals should be S.M.A.R.T.
- Business, family & personal
- Mental, physical & spiritual
- 20% of top producers have written goals
- Developing written goals: earn 4 times as much in lifetime

GOAL SETTING



“Goals provide focus in a cluttered world.”

Financial Liquidity & Cash: The Bridge

- Shock absorber- cash flow, profits
- Preserve wealth or liquidity fallback
- Proactive positioning – opportunity capital



“Cash is queen on a chessboard of business and life.”

Working Capital by the Numbers

- Working capital to expenses:
 - >25% Green
 - 10 to 25% Yellow
 - <10 Red
- Months in cash for family living expenses
 - 6 months Green
 - 3 to 6 months Yellow
 - <3 months Red



“Working capital for resiliency, agility and flexibility.”

Profitability

- 60-30-10 profit plan
- Term debt to EBITDA
 - <3:1 **Green** (moderate agility/resiliency)
 - 3:1 to 6:1 **Yellow** (some resiliency, little agility)
 - >6:1 **Red** (low agility/resiliency)
- Earnings & turns
 - Margin X capital turnover = ROA

“Profit is the oxygen of the business.”



Cash Flow Discipline

- Quarterly & monthly cash flow
- Operational plan to support cash flow
- Spreadsheet with sensitivity analysis
 - “The audibles”
 - Omaha
- Tax cash flow trap



“You can’t out earn disorganization.”

Ten Philosophies for Thriving In Adverse & Opportune Times



- Ownership of the numbers- not just for the bank, makes you a better manager.
- Cash flow plan: monitored monthly or quarterly
- Operational plan that supports the cash flow plan
- Focus on earns & turns: net margin & capital turnover
- Eliminate unproductive assets: capital & human
- Good advisory team for a sounding board
- Focus on top half of the balance sheet: financial liquidity for business & household
- Open communications with lender, family, partners & stakeholders
- Balance the warrior and the worrier
- Balance: never equate self worth to net worth

Five Financial Metrics for Adversity/Prosperity

Financial Indicator	Green	Yellow	Red
<u>Net Working Capital</u> Farm Expenses	> 25%	10 to 25%	< 10%
Coverage Ratio: <u>Repayment Capacity</u> Debt Payments	>150%	110 to 150%	<110%
Operating Expense to Revenue (Excluding Interest & Depreciation) Note: 5-10% higher for rented & leased operations	< 70%	70% to 80%	> 80%
Term Debt to EBITDA (Net Income + depreciation & interest paid)	<3:1	3:1 to 6:1	>6:1
Financial Statement Organization & Use: 1. Projected Cash Flow 2. Balance Sheet 3. Accrual Income Statement	Uses All 3	Uses One or Two	Zero Use

Homestead Creamery Quarter Century Market Lessons & Philosophies

1

- Always overestimate time & money by 25% in growth & expansion
- Weekly cash flow monitored with tactical adjustments throughout the year
- Working capital exceeds 25% of expenses with 25% in cash-
“Warren Buffet Philosophy”
- Power of glue leaders and disruptors in the business culture
- Asynchronous strategy of innovation changes & decision making

Homestead Creamery Quarter Century Market Lessons & Philosophies

2

- Power of earns & turns & the flywheel effect
- Balance the head & heart in business culture
- Financial sensitivity analysis: best, average & worst-case scenarios: Don't overlook the best of the best!
- Homestead Creamery is where the employer of choice aligns with the employee of choice: Three A's
- $ROR = ROA \& ROI$

Eight Habits for a Fulfilled Life

PHYSICAL

- Drink water
- Exercise regularly
- Healthy diet
- Sleep



MENTAL

- Support network
- Life purpose
- Mental activities: read, meditate
- Faith & spiritual



Leadership Principles that Stand the Test of Time 1

- Change occurs bottom up, not top down
- Manage the controllables, manage around the uncontrollables
- Quick money builds ego: Disciplined principle-based strategy/activity results in resiliency, nimbleness, agility & character
- Rule of 3-3-3
- 18 second Rule of Doctor: Shutdown technology & listen, regenerate
- 50-25-25 Rule: You are what you were when you were 4-16 years of age

Leadership Principles that Stand the Test of Time 2

- People that can't see the stars & horizon have a narrow perspective in life.
- If you are going to lead, you must read. Children in India & China want your job!
- Success is often measured in dollar signs. Significance is giving back & making a difference in people's lives.
- A successful culture and society must have success in agriculture.
- A resume shows accomplishments while an eulogy shows you as a person.



Q&A with Dr. Kohl

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Online Articles:



- Farm Progress Weekly Article:
<https://www.farmprogress.com/author/david-kohl>
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