



# Cornhusker Economics

## The New Center for Agricultural Profitability

Agriculture, and the processing of its products, comprises approximately 25 percent of Nebraska's economy, with 1 in 4 jobs in Nebraska related to agriculture (Thompson et al., 2020). According to the USDA Economic Research Service, cash receipts from marketing of farm products contributed over \$21 billion to Nebraska's economy in 2019. The natural resource base in Nebraska, comprised of productive soils, rangeland, ground and surface water, and the infrastructure to procure inputs and market farm products, provides a solid foundation for a strong agricultural industry into the foreseeable future.

The agricultural operating environment, though, has changed dramatically over the past 25 years and will continue to evolve in the next 25 years. Farms have increased in scale to capture the economies of size. There also has been restructuring in the agricultural input, marketing, and processing sectors. Price volatility for agricultural commodities has increased dramatically over the past decade, substantially increasing the need for price and production risk management. As these trends continue, the impacts of each economic decision at the farm production level become more pronounced. Dr. David Kohl, professor emeritus of Agricultural Finance in the Department of Agricultural and Applied Economics at Virginia Tech University and popular banking and producer conference speaker and author, incessantly teaches producers that knowing their costs of production, breakeven metrics and cash flow requirements are key decision-making tools. He predicts, "the next ten years of defining moments will surpass the changes seen in

[agriculture] the last 50 years." (Kohl, Aug 3, 2018) There will be less flexibility for a wrong business decision. It is critical that producers have economic decision-making information that is current, factual, specific and holistic, and that they have appropriate tools and procedures to analyze that information.

The economic viability of the agricultural sector in Nebraska reaches far beyond increasing the productive capacity of the farms and ranches comprising the industry. Though several innovations have been and currently are being developed to enrich agricultural production, not all are economically viable. In today's economic environment, farmers and ranchers can no longer aim for maximum yields while ignoring financial considerations. The liquidity and solvency of farmers and ranchers are dependent upon financially astute decision-making.

The complex problems faced by agriculture today cannot be solved by isolated disciplines. A holistic, systems approach is needed to address the profitability of agriculture. To assist with these needs, the University of Nebraska-Lincoln has approved the development of the Center for Agricultural Profitability (CAP) within the Institute of Agriculture and Natural Resources. CAP will be housed in the Department of Agricultural Economics and will provide a uniting locale for faculty from various disciplines to engage with faculty from the department. CAP will seek to bridge departmental silos and bring together faculty with

expertise in several areas (e.g., agribusiness, economics, business, animal science, agronomy, bioengineering, veterinary science and natural resources) to focus on the economic well-being of Nebraska's farmers and ranchers through a systems and holistic approach. This will include applied research and educational outreach efforts.

The mission of the Center for Agricultural Profitability is *to support informed economic decision-making in agriculture through applied research and education*. The vision is *to be the innovative, responsive, and trusted source of agricultural business management research and education*. To assist CAP in fulfilling its mission and vision, an advisory board, comprised of 12 individuals intimately involved in the agricultural industry has been organized. The advisory board has been given the charge to:

1. provide council that will help bring relevancy to the work of the Center and to assure that the mission and vision of the Center are fulfilled;
2. provide direction and feedback on the Center's outreach and research programs;
3. identify trends in the ag sector that will influence the work of the Center;
4. be an advocate for the Center to university administration; and (
5. promote Center programs in their circle of influence.

An internal interdisciplinary advisory council will also be organized to identify and assist in recruiting faculty outside agricultural economics who would benefit by being associated with the Center and will strengthen the mission and vision of the Center.

Expecting this Center to materialize, the Farm and Ranch Management Team has been developing several educational tools to improve our interaction with our constituents. Our current weekly Farm & Ranch Management Webinar Series and the implementation of our frequent articles and podcasts are new programs that will continue under the umbrella of CAP. These materials and others are located in our new website [cap.unl.edu](http://cap.unl.edu).

One of the major early thrusts of CAP is to provide tools to assist producers in their financial decision-making. In a poll of 976 ag lenders during the summer

of 2020, lenders were asked to list the characteristics that are important to agricultural producers for resiliency and agility in their business. The number one characteristic stated by 62% of the lenders was producers knowing their cost of production (Kohl, Dec 10, 2020), with a marketing plan the number two characteristic at 58%. In a more recent survey of ag lenders, Kohl (Jan 12, 2021) found that "high on the lender's wish list is a producers' ability to develop a monthly or quarterly cash flow statement" and that conducting sensitivity analysis on yields, market prices and cost estimates would be "icing on the cake." An annual survey of some of the top producers in the United States conducted by financial consultant Dick Wittman, as part of the prestigious Executive Program for Agricultural Producers (TEPAP), reveals that, historically, only 47% of these top producers have prepared cash flow budgets and performed enterprise analysis. This promoted Mr. Wittman to state, "this illustrates a strategic vulnerability for producers...." (Kohl, Apr 29, 2019; Kohl, Mar 28, 2015).

In response to the need to "raise the bar" and "increase [farmer's] financial acumen" (Kohl, Jun 19, 2018), we have developed the Ag Budget Calculator (ABC) program to assist producers in developing cash and economic cost and return estimates, cash flow budgets, and marketing plans, along with additional features to assist in making risk management decisions. ABC is designed to be a user-friendly, Windows and MAC compatible, online budgeting system that provides breakeven and cash flow metrics useful in production, cost control, and other management decisions. ABC allows the user to ascribe a planned purchase date on inputs, including inventory, and determine month-by-month pre- and post-harvest strategies using historical price indices and basis. By including loan payments, all information is available to automatically populate a monthly cash flow budget in ABC. ABC is applicable to all types and sizes of agricultural operations, including specialty crops and small-scale farmers growing for local food markets. The Nebraska Soybean Board provided the foundational funding for the development of ABC.

## References

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