

MINNESOTA STATE

COLLEGES & UNIVERSITIES



Golden harvest

Farmers reap profits from farm business management education

Chemistry instructor has award-winning formula

Remodeling this old house just got a whole lot easier



The Minnesota economy is bolstered by services, education and training provided by the 32 Minnesota State Colleges and Universities. This package of stories features farm business, manufacturing and bioscience education.



GROWING BETTER

FARMERS SHARPEN THEIR BUSINESS
MANAGEMENT TOOLS TO STAY PROFITABLE

IT'S 7 A.M., AND FARMERS ARE FILTERING INTO A MEETING room at Grandpa's Garage in Cannon Falls, greeting each other and grabbing a seat at the table. Class is about to begin.

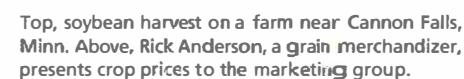
Over scrambled eggs, hash browns, sausage and bacon, the farmers listen intently to an update on the fall harvest from their instructor, John Hobert. They discuss crop conditions, the harvest status and the current volatility in the markets for corn, soybeans, milk and other commodities they produce. “We’ll make some money on our crops this year, but not as much as last year,” Hobert says, summing up the situation.

Welcome to the Cannon Falls Marketing Group, a monthly educational gathering for farmers enrolled in the farm business management education program offered by the Minnesota State Colleges and Universities.

This statewide program teaches about 3,000 farmers to become even better managers. Their farm record books are their textbooks. Their farms are the laboratories. And their financial reports measure their progress. "The program helps me to maintain everything and track costs," said Marc Hernke, who's harvesting 1,500 acres of corn and soybeans this fall. The program's annual tuition, about \$1,300, is worth it, Hernke said. "We get that back many times over in knowledge."

Soon the hour is up, and the students head back to their farms, gearing up to finish the harvest in the fertile, gently rolling countryside of southeastern Minnesota. And Hobert hits the road to begin his daily schedule of instructional visits to his students on their farms.

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"CENTURY FARM" NOURISHES FAMILY TRADITION

This fall, Roger Overby harvested 1,000 acres of corn and 500 acres of soybeans from land that has been in his family for more than 100 years. At age 48, this silver-haired veteran farmer is enrolled in the farm business management education program.

His teacher is John Hobert, an instructor from Riverland Community College who has guided Overby through a curriculum designed to sharpen his record-keeping, decision making and profitability.

When Hobert pulls into Overby's farm southeast of Cannon Falls every six weeks to deliver his educational lesson, he's also prepared to assist with a current issue. One day this fall, for example, Overby was in a quandary over whether to buy a couple of parcels of nearby land. Hobert plugged in his laptop, and they began working through cost and revenue factors and pros and cons. Overby ventured his tentative decision: Buy one parcel but not the other. His teacher agreed with his reasoning.



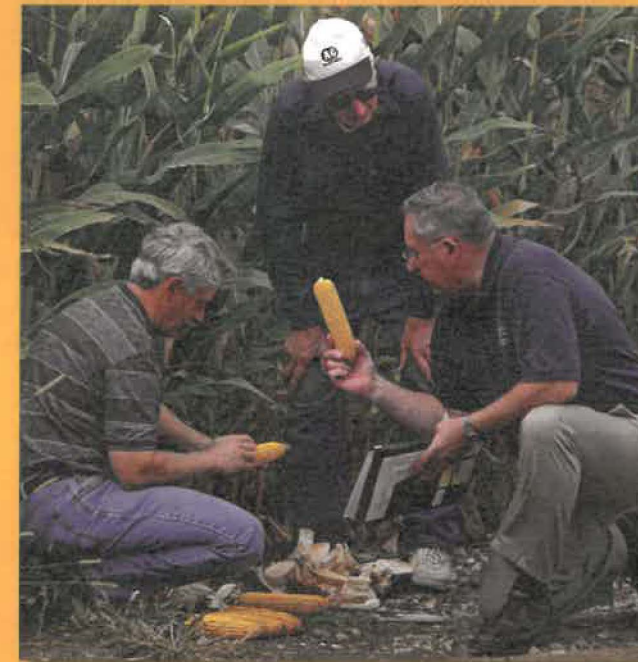
Quickly they moved on to Hobert's lesson and then talked about the harvest, current cash bids on corn and the downward spiraling economy. "I never thought there would be farms worth more than Lehman Brothers. That makes me feel good," Overby quipped.

Overby, who had attended the two-year agriculture program at the former University of Minnesota-Waseca campus, took over the farm from his father, Jim Overby, now 81 and living nearby.

The two men decided to pay a brief visit, and soon the elder Overby was enjoying some banter next to his son's quarter-million-dollar John Deere combine, with a 30-foot-wide cutting head and a cab equipped with high-tech devices such as GPS. While Jim Overby won't operate that green behemoth, he still drives a tractor and remembers a simpler way of working the land. "My great-grandfather started the farm," he recalled, "and I planted my first corn with a team of horses and a two-row planter."

The three men walked back to a cornfield, and Roger Overby pulled a sampling of ears. He and Hobert stripped back the dry husks and counted the rows of hard, golden kernels on each ear. Hobert calculated an average of 17.33 rows around the cob and 39.11 kernels lengthwise. Plugging a formula into his calculator, Hobert projected 225 bushels an acre in that plot, which he said would be “extraordinary.”

Sometime soon, the next generation may step in. Roger and his wife, Lisa, who works part time off the farm, have two sons: one is studying aviation at Minnesota State University, Mankato, and the other is a high school senior who's looking at agriculture programs at several state colleges and has expressed interest in farming. Overby said he'll have two conditions: "He has to complete a two-year college program and then enroll in the farm business management program."



From left, Roger Overby and his father, Jim Overby, listen to farm business management education instructor John Hobert's projections for their fall harvest based on sample ears of corn.

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MINNESOTA'S ECONOMY DEPENDS ON FARMERS' SUCCESS

Today, just as it was 150 years ago, agriculture is big business that affects all levels of the state's economy.

The average farmer spent \$669,890 last year, mainly at businesses in the local community. When a farmer buys feed, fuel, fertilizer, machinery, and building and household products, those purchases create economic activity for banking, transportation, machinery and seed sales, insurance, construction, manufacturing, restaurants, groceries and hardware stores. And with 79,000 farms across Minnesota, that adds up.

"Agriculture is a very large economic driver in the state of Minnesota," said Jim Boerboom, deputy commissioner of the Minnesota Department of Agriculture. "We are a global leader in crop and livestock production and exporter of agricultural products."

Sales of crop and livestock products total about \$10 billion per year – the sixth largest in the nation. And Minnesota ranks seventh-largest in agriculture exports, which last year totaled \$3.6 billion. Agriculture production and processing directly and indirectly support 367,000 jobs and generate \$55 billion in economic activities statewide, second only to manufacturing. One in five Minnesota workers has a job related in some way to agriculture.

The success of this enormous enterprise depends first on the success of individual farmers. Each farmer typically works in relative isolation, making a host of financial decisions based on market reports, farm publications, lenders and consultants. The complexity of farm business today can be daunting.

"One contract that turns out wrong could wipe out a farmer," said Richard Joerger, director for agriculture and business programs at the Minnesota State Colleges and Universities. Joerger, who previously worked for the University of Minnesota, assumed his new position last year. Joerger said he's excited about the farm business management education program, which is more than 50 years old, and its potential.

FARM BUSINESS MANAGEMENT EDUCATION BOOSTS SUCCESS

"What's so good about the program is the systematic, long-term educational process to teach farmers how to make decisions and reach their goals," Joerger said.

The farm business management education program has 75 instructors based at eight state colleges. They use one-on-one, group and online instruction to teach the farmers. The 60-credit diploma program is designed to be earned over six years; after

that, the students can take advanced management and marketing courses. Joerger said the program helps these men and women who are farming in Minnesota improve their record keeping, make prudent decisions, analyze their progress and generate profit.

Farmers learn to use accounting software and receive instruction in how to complete their annual farm records close-outs, farm analysis, cash flow and tax documents. The accurate and complete financial statements also smooth the way for working efficiently with local lenders.

"As a lender, I really appreciate the farm business management program. The information is well organized and easy to analyze, and it helps the farmers be more organized when they come in to request a loan," said Lee Pongratz, agriculture lender for the Community Resource Bank in Northfield, who works with farmers Hobert teaches.

Cultivating good relationships with lenders, farmers and their families is essential for instructors like Hobert. "This is a people business," he said. "We wear a lot of hats." Time spent around kitchen tables, home offices and barns tends to create close relationships with whole families. Instructors have attended

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Roger Overby monitors an array of sophisticated instruments while combining beans on his farm. Below, Overby's combine with its 30-foot-wide cutting head overwhelms the lane between cornfields in the late afternoon sunshine.



COUPLE TEAMS UP TO IMPROVE CROP, HOG FARM RECORDS

Susan Gustafson keeps the books and her husband, Scott, farms their 500 acres of corn and soybeans and tends to 4,500 hogs. Like many farm couples, they're a team with defined roles.

But together they are learning the intricacies of farm record-keeping from their instructor, John Hobert, who was Scott's high school agriculture teacher, too. Scott, 48, has participated in the farm business management education program for the last couple of years because the couple wanted to find better sources for information and improve their record-keeping practices.

Susan, 47, tracks their expenses and income, entering the data in a complex computer program that Hobert is teaching her to use. "This really breaks things down so you can see whether you're making money and where," she said.

The couple met in high school, married and then in 1993 bought the farm a few miles west of Cannon Falls from Scott's father. "This is something Scott always wanted to do," Susan said. "Most of the time then, Scott did the books by hand. We've had a computer for several years. I'm doing most of the data entry now, but I'm still learning."

Susan, who earlier completed a legal secretary program at Inver Hills Community College in Inver Grove Heights, today works 45 hours a week from home entering data for a firm. In addition to keeping the books and paying the bills, she helps with the farming when an extra hand is needed.

During the fall harvest, she drives a tractor pulling a grain cart and runs it alongside the moving combine. Then she dumps the soybeans or corn into a semi-trailer truck that hauls the crop back to their grain bins for storage. "It's fun," she said, "but probably the thing I like least is getting cold."

They have two children, a daughter who's married and has a daughter, and a son who graduated in agriculture operations from Ridgewater College in Wilmar. Their son is working full-time growing trees for Bachman's garden center and talks about taking over the farm someday, his parents said.

Hobert prepares his students to think down the road, too, Scott and Susan noted. Said Scott, "John reminds us to put money away for retirement."

Top, Susan and Scott Gustafson are learning more sophisticated record-keeping techniques through the farm business management education program. Left, Susan Gustafson drives a tractor during harvest.



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weddings, anniversaries and graduations and helped families deal with deaths. "Most of us become a member of the family, nearly," Hobert said.

After 23 years teaching agriculture at Cannon Falls High School, Hobert joined the faculty at Riverland Community College 14 years ago to teach in the farm business management education program. Like many other instructors in the statewide program, Hobert has seen lots of his high school students advance from the FFA to heading multimillion-dollar family farms today.

His 54 students range in age from 25 to 75, with most around 55 – the average age of Minnesota farmers today. Greater complexity in the farming business has compelled veteran farmers to put down their pencils and learn to rely on computers for record keeping, analyses and staying on top of dramatic market changes.

Roger Overby, 48, has been enrolled in the program for several years, saying he keeps better records and can count on neutral, unbiased instruction and mentoring from Hobert. A member of the Kenyon-Wanamingo School Board, he likens the program to continuing education. "I think I'm stronger financially and a better manager than I would have been without the program," Overby said.

One of Hobert's younger students is Andy McNamara, 27, who works full time as a crop insurance agent and farms 170 acres that he and his wife bought when his father retired. "When we took over the farm a couple of years ago, it was a requirement of the lender," McNamara said. "They foot part of the bill for me to be in the program."

Although McNamara has an agricultural education degree from the University of Minnesota, he said he now is learning more about the financial aspects. "That's not why I got into farming – I just liked it – but it's more of a business than it used to be."

In addition to the curriculum Hobert teaches, he offers his students objective instruction and advice they may seek on big decisions – such as whether to buy an adjacent parcel of land or a new quarter-million-dollar combine, or whether to build a \$2 million dairy barn or shift out of pork or milk production.

With gross incomes running \$1 million to \$2 million a year on many of Hobert's students' farms, these farm operators rely on timely, trusted information. At the end of each day, Hobert sends all of his students an e-mail with market reports; he also sends a weekly report.

FARMERS' DATA FEEDS INTO STATE REPORT

"One major strength of the program is having an annual analysis of your farm business," Joerger said. "Each farmer enrolled in the program can compare their analyses measures with the results of other farmers in the local, regional or statewide programs."

The annual reports from participating farmers are fed into an electronic database created in collaboration with the Center for Farm Financial Management at the University of Minnesota. The annual report, initiated in 1996, yields a wealth of data. Farmers,



Marc Hernke, sitting in his kitchen recently, talks about becoming a student in the farm management education program.

often wary of sharing personal business data, are assured of privacy and security. In Joerger's view, "This database is the best in the United States. It's used nationally."

The farm business management program fits into an array of resources available to farmers, including traditional types of agriculture programs at the state colleges and universities. Other resources include the University of Minnesota Extension Service, which Hobert describes as more oriented toward production.

The Minnesota State Colleges and Universities farm business management program is "by far the most organized program like this in the country," said Hobert, past president of the National Farm and Ranch Business Management Education Association.

Does the program improve the farmers' bottom line? One measure is a survey taken in 2000 that showed the participating farmers estimated their net annual income increased \$5,000 because of the program.

Farmers have been prospering at varying levels since 2000. The average annual net farm income over the past eight years is \$73,776 for farmers enrolled in the program. But net income is just one indicator of financial standing, and already the picture is changing.

"There are a lot of worried farmers," Hobert said. They look at sharply rising costs for fertilizer, rent and other expenses, and they try to make sense of the volatile grain markets. Fertilizer costs doubled from last year, for example, and grain and milk prices have plunged this fall. The current situation is being described variously as "alarming," "ugly," "dynamic" and "turbulent."

To be sure, farmers always have faced challenges. During the 1980s farm crisis and other tough times, the statewide farm business management education program helped farmers adapt in various ways. For a farm family struggling with the stresses and strains, the program has a psychologist who can meet with the family. And if a widespread crisis develops, the instructors are poised to play a big role.

Joerger said, "I see the farm business management program, with instructors across the state, as uniquely positioned to respond and help farmers and the rural economy that depends heavily on them." ■

Right, instructor John Hobert takes a whiff of the sweet-scented fresh silage in Rahn Hernke's dairy barn near Cannon Falls, Minn. Below, Hernke's Holsteins fill the new dairy barn.

PROGRAM HELPS FAMILY CORPORATION EXPAND

The Hernke farm is a diversified family farm corporation run by brothers Marc and David, their cousin Rahn and their uncle Allan and his wife, Betty, who keeps the books. Each specializes in a facet of the operation.

Marc Hernke is growing 1,000 acres of corn and 500 acres of soybeans this year. David runs their trucking operation, and Rahn runs the dairy operation, which expanded this year from 225 to 600 cows. Allan, who is retiring, runs their lime and rock operation. Marc and David's 81-year-old father, Owen, also helps with some tasks, such as running a tractor to pack down a huge heap of freshly cut silage for storage.

Marc Hernke, who earned a two-year degree in agriculture production and agriculture business from the former University of Minnesota – Waseca, recently enrolled in the farm business management education program; his brother, David, has completed the program.

At 37, Marc Hernke fits into the "young farmer" category, married with two boys, a high school freshman and a fifth-grader. Sitting at the kitchen table recently with Hobert, a plate of cream puffs plated in the center by his wife, Julie, he recapped some history of the family farm. After his dad retired, the younger generation stepped in. But a couple of the farm's enterprises were slipping. Hernke said, and Hobert's instruction helped them learn how to analyze the operation and increase profits.

Hobert taught the family how to create the three-year cash flow projections needed to land a loan for the dairy expansion. Without that, Hernke said: "I don't know how we could have projected earnings for this project."

The lender approved; now the new dairy facility is close to completion.

Farmers today can implement sophisticated devices such as satellite technology and computer software to use every inch of their fields and fine-tune their business operations. As Hernke noted, "Today, there isn't much difference between running a farm and running a grocery store or a printing plant – except we are more weather dependent."

A few miles away at the dairy operation, Rahn Hernke walked Hobert through the new 420- by 120-foot barn, already populated with Holsteins. Outside, trucks rumbled in from the Hernke cornfields, where 360 acres of silage were being harvested to feed the herd until next fall. The sweet smell of silage filled the air – perfume to these farmers.

"I was milking on a 40-cow farm nearby and came back to do this," said Rahn Hernke, now 50. He enrolled in the farm business management program taught by Hobert; they had known each other since Rahn Hernke was in ninth grade. Rahn Hernke sums up the outcome concisely: "John's the reason we are here."

