

## More Brains, Better Decisions

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By: **Top Producer Editors**



To help them prepare for opportunities, brothers Nathan (left) and Sean Collins of Murdock, Minn., use an advisory board.

### Advisory boards yield better business results

Nathan and Sean Collins put together an advisory group two years ago and it's already yielded huge benefits.

"We talked a lot about building a hog facility," Nathan says. "But after listening to the outlook the group gave us, it wasn't a risk we wanted to take. It wasn't our strong suit."

Given what happened to the hog industry right after the Murdock, Minn., brothers considered entering it, their decision turned out to be a prescient one.

"Such groups are indeed a new and healthy trend," says Bob Aukes, the facilitator of a producer group and a financial consultant based in Des Moines, Iowa.

The Collins Family Partnership's board of advisers consists of five members, all non-farmers although rooted in agriculture. The brothers' father, who still works on the farm, also sits on the board.

The advisory council meets about once a year to help the partnership position itself for opportunities down the road. "We know how to run our business, but someone with an outside vantage point may see something we miss," Nathan says.

"It's easy to sit in the cab of a tractor and listen to the radio and get so bullish that you can't see straight. It's good to get the outlook of someone else," Sean adds.

**Help with Estate Planning.** One way Howard, Kan., producer Jim Perkins uses outside advisory boards is to help him with the challenging task of putting together an estate plan. "The board can ask leading questions," he says. "They can challenge me in ways my own family can't get away with. That's good for the business."

Advisers also have offered up timely information to Perkins. For example, in a recent meeting in which estate planning was discussed, one adviser who is an accountant pointed out a change in tax law that would benefit the farm, but there was only 60 days to get it done. "We got into gear and completed it," Perkins says.

**Farmer Boards.** Pat Duncanson has belonged to several all-farmer advisory boards. On one board, the producers live several states away from each

### Advisory Group Seminar

Join Top Producer and Texas A&M AgriLife Extension economist Danny Klinefelter on July 11-12 for a business short-course to help growers organize peer advisory groups. The seminar will be in Grapevine, Texas, at the Gaylord Texan Hotel. For more information or to register, call (979) 845-7171 or e-mail [bofczarzak@tamu.edu](mailto:bofczarzak@tamu.edu).

other, which makes it easier to share detailed financial and production information. This would be tougher to share with neighbors, says the Mapleton, Minn., grain and livestock producer.

One benefit Duncanson sees in groups that consist of various crops and livestock operations is that the perspective is different. "Some of the operators grow sugar beets and their perspective really has value," he says.

While Duncanson says boards can take many forms and still be successful, he is firm on the need for an outside facilitator.

**Production Benefits.** Advisory groups have agronomic value as well. Based on one group's field trials, Duncanson has increased his corn planting speed and reduced population. The group also found that changes in nitrogen application are necessary. "It saves us money by making us more efficient and weatherproof and reduces our environmental impact," Duncanson says.

In one group Duncanson belongs to, a farmer was dealing with drainage issues. The group members, with help from an ag engineer, analyzed the problem and the solution they came up with not only helped the particular member with the problem but others as well, both within and outside the group. The results were published in a professional journal.

Because detailed data is discussed openly, the group has one firm rule, Duncanson says, using a popular analogy: "What happens in Vegas stays in Vegas."

**Machinery or Bin?** Bret Oelke, a University of Minnesota Extension educator in Fergus Falls, Minn., says that if a board is put together appropriately, feedback is valuable because it is unbiased.

For example, a producer on one of the boards he sits on asked if he should buy a new piece of machinery or a new bin. The board advised the producer to buy the bin. In the end, the producer found a way to split cash and a loan to do both, but it gave him something different to think about, Oelke says. Producers almost always favor machinery over everything else, so the group's input was important.

Something else boards do is caution producers to think about the unexpected. "You hope it won't happen, but what happens if the owner dies unexpectedly?" Oelke asks. "A very, very small percentage of farmers think about that."

Lance Woodbury, a Garden City, Kan., consultant who is a group facilitator, says advisory groups also help open doors to opportunities. "One guy came to talk about the wind energy business, and that led to a new way to negotiate a deal."

Another example: A group was talking about nationwide land values at one of its meetings. That helped a western Kansas producer who is thinking of investing in farmland elsewhere, Woodbury says.

**Splitting CFO Cost.** "You need to populate your group with people who challenge you," says Danny Klinefelter, a Texas A&M ag economist. He advises producers not to put together advisory groups with more than 10 to 12 people, although some groups find that they can do the important activity of benchmarking with as few as five or six members. When groups get as large as 20, they lose their effectiveness, in Klinefelter's experience.

One real advantage producer peer groups have, Klinefelter says, is that they can bring in national experts who would be too expensive for individual producers to engage.

For example, a speaker may charge \$12,000, but if 10 producers join forces, that's a more modest \$1,200 for hands-on training—where you need it, when you need it.

Groups also can lead to producers jointly purchasing machinery or expertise. Say that hiring a chief financial officer costs \$150,000. If three farmers share the expense, it would cost \$50,000 per farm, Klinefelter says.

Producers also can join together and purchase the services of a grain merchandiser, which can help with hedging and risk management, particularly options. "Three to seven producers can do this together," Klinefelter says.

Another benefit Klinefelter sees in advisory boards, regardless of type: "Challenging yourself, exposing yourself, even some of your weaknesses. People are free to ask questions." That is how producers become better managers, he adds.

## The Importance of Structure

Advisory boards are a good idea, but they have to be structured, says Bob Aukes, a financial consultant based in Des Moines, Iowa. "Large producers are kind of isolated," Aukes says. "This gives them an opportunity to meet with equals and brainstorm ideas."

It is important, though, that groups don't meet just for the sake of meeting; there has to be a specific agenda, since some members may commit two days of travel time.

That structure plus the members' desire to get the job done combine to exploit the strong opinions and critical thinking a good group attracts.

An ideal group size is six to eight, says K.R. Averhoff, a dairy performance manager for Dairy Services, LLC, Hart, Texas. He helped start a peer group in late 2005 as the facilitator and now participates as a member of the group in the Texas Panhandle.

"Many group members had gone through expansion," Averhoff says. They challenged each other to get better by comparison with other members.

"For a group to work, members have to be open. When a group is established, you have to understand the dynamics of the group. Everybody has to be open and honest with information. Group members also have to feel comfortable with each other."



*Minnesota producer Pat Duncanson seconds that the open sharing of ideas is crucial for a group's success. "Some people can't share ideas. They want to keep ideas for themselves," he says.*

*For example, farmers in a production group with members within a 100-mile radius can do their own testing of starter fertilizer, micronutrients, variable-rate seeding, fertilizer, pesticides, seeds and yields, and then share that with the group.*

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