Decision-making in weird economic times

Dustin Sawyer for *Progressive Forage*

AT A GLANCE

The following guidelines can help ensure that today's cost-cutting measures don't become tomorrow's profit-cutting measures.

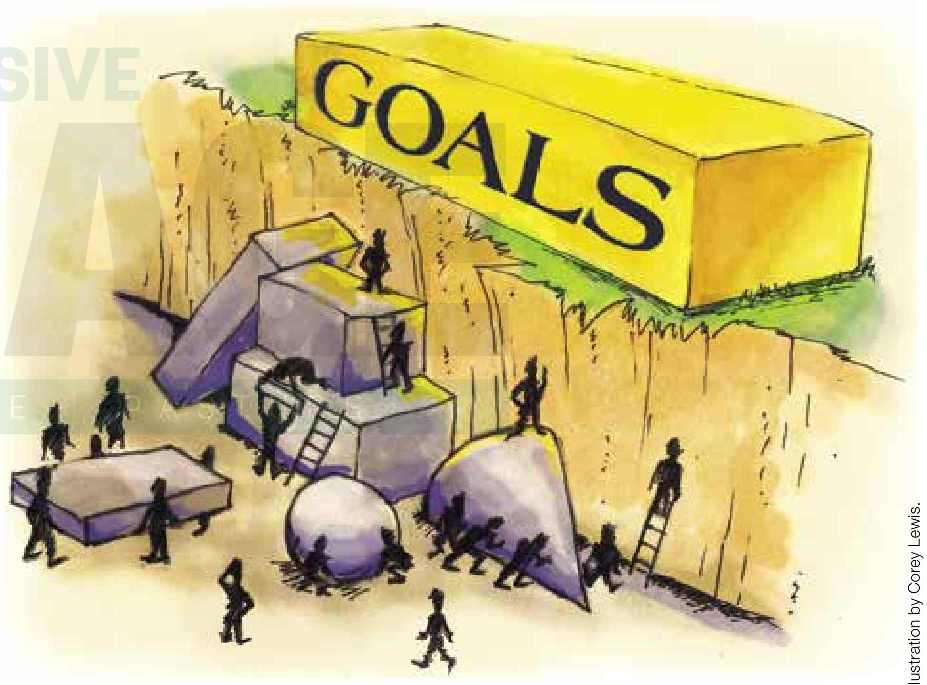

Illustration by Corey Lewis.

It can be difficult to make the right decisions when it feels like everything is on the line. Times of uncertainty can impose pressures that cause the decision-making process to malfunction. A sense of urgency tends to force knee-jerk reactions and subvert the usual deliberation processes that guide every decision from the mundane to the major purchase. And like any industry, agriculture is not immune to these jolts in decision-making.

The trouble is scarcity. Be it money, time, food or anything important, the feeling that there is not enough of something can have a severe impact on decision-making. Dr. Sendhil Mullainathan, a professor of computation and behavioral science with the University of Chicago Booth School of Business, says scarcity can induce tunnel vision, obscuring the bigger picture. In that context, it is easier to make decisions that manage the scarcity at hand without thought as to whether the decisions will make things worse in the long run. It isn't uncommon for people to fall into this trap, especially when scarcity or uncertainty impacts one's financial security.

It's important to recognize when the decision-making process is being influenced by this tunnel vision and to put some checks in place to help avoid the pitfalls that come with scarcity. As farmers and their nutritionists and agronomists are making decisions in today's environment, the following guidelines can help ensure that today's cost-cutting measures don't become tomorrow's profit-cutting measures.

Keep your eyes on the prize

It's important to have a specific, overarching goal. In business, the goal often takes the form of a mission statement, but it can really be anything that looks to the future and is important enough that it can guide decisions made today. Goal setting can be difficult, but it's not possible to overstate the importance of having a clearly defined goal to help guide decision-making. People often tend to set goals that are unclear, or unachievable, such as getting rich or increasing crop yield. Those goals would be much more useful with more detail and a realistic timeline. Instead, these could be stated as "earn an income of at least $100,000 per year by the age of XX" or "increasing soybean yield by 5% on Home Field One over the course of the next two crops." These clearly stated and well-defined goals now offer clearer context in which decisions can be viewed.

The detail and timeline in the more complete goals provide a guide that builds more realistic consequences around the decision at hand. Once the goal is set, every decision will become a question of "Will this move toward my goal?" By reframing the decision in terms of the goal, the decision feels less personal, more purpose-driven and easier to make – almost becoming bumper bowling, but for decision-making.

Calculate the return on investment (ROI) and trust that it is true

A major decision for any farm business should have some kind of return attached to it. Sometimes, the economics of the return can be easy to see, such as reduced fuel costs of a new piece of equipment. Other times, the economics of the return can be less obvious, as in when trying to place a value on improved quality of life. In either case, calculating the ROI is a great way to put data behind the decision and help outline which choice will move in the direction of the goal. In economic decisions, such as a major purchase, the ROI employs simple math to figure out the timeframe required for the purchase to recoup the investment.

As a general rule, any purchase where the ROI is under four years is an easy yes, and any purchase where the ROI is more than seven years is an easy no. Purchases with the ROI between four and seven years will require more scrutiny and should thus be viewed with the goal in mind.

Lean on the experts

Experts are available to help with nearly every decision at hand. These are people who have made it their business to understand the ins and outs of their industry and whose input can usually be trusted. Doctors help with major healthcare decisions, financial planners help reach retirement goals, and most people wouldn't think about making a major decision without help from these experts. When it comes to

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choices that need to be made on the farm, don't undervalue the input of an agronomist or nutritionist. They have the expertise to know which expenditures will help generate a sufficient ROI and which will simply be expenditures. In essence, they will not be penned in by tunnel vision and can offer an outside perspective. When looking at the finances of the farm, the help of an agronomist or nutritionist can also ensure that a cost-cutting measure made today won't cause damage in the future.

Don't undervalue information

The sense of urgency that accompanies stressful decision-making can seemingly justify skipping steps that would otherwise be considered vital. The information-gathering process often takes time and sometimes money; so in times of scarcity, people tend to shortcut the process and ultimately make less-informed decisions. Skipping the information-gathering stage can feel like the right thing to do in the moment, since it will save time and money, but that short-term thinking can make things worse in the long run. If experts don't have all the information they need, the ROI cannot be accurately calculated, and as such, it isn't easy to know whether the decision moves toward the goal.

Agricultural laboratory services are often among the first expenses on the chopping block when the economics of the farm become uncertain. While it seems like a cost savings to skip plant tissue analysis, the agronomist loses a valuable tool that could help decide whether yield is being left in the field.

No matter the situation or circumstances, there should always be one goal that drives every decision. Calculating the ROI helps to determine how to move toward the goal and experts help to calculate the ROI, but they can only do that with the right information. By sticking to this framework and faithfully trusting the process, decisions are less personal and easier to make, and goals can be reached more consistently.


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