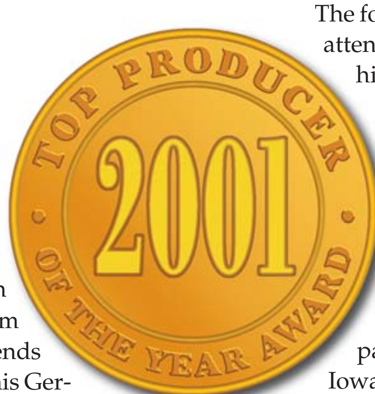
Life in the Fast Lane

A globe-trotting Iowa boy heads home again

Nonconformist Ben Riensche traded life in the Fortune 500 fast lane to return to the family farm. His unconventional wisdom has kept it growing at a pace that would stymie most others.



Don't be misled by Ben Riensche's small-town veneer and dry wit. Sure, he married a girl he'd known since high school, moved to a modest two-bedroom rancher at 1234 Main Street and still attends the Zion Lutheran church founded by his German immigrant ancestors. But scratch beneath these Middle America conventions and you'll find one of the country's most unconventional corn and soybean farmers, one polished by a jet-setting career as a Wall Street lender in Zurich and New York, yet grounded in rural values. "I'm probably the only former Swiss banker who has ever delivered hogs to IBP's Waterloo plant," the Iowa native quips.

Peak performer. The magazine's Top Producer of the Year 2001 is a self-made farmer and one of a small minority of Midwest producers capable of landing a consistent profit every year, with no excuses for commodity market crashes, surprise expenses or weather disasters, his own lender says today.

By the time Riensche left the executive track at Swiss Bank Corp. to return to full-time farming in 1993, he claims that he had forgotten most preconceived notions about how to run an Iowa crop operation. Instead, he organized his farm based on how it made sense to him as a business analyst, not a farmer.

In his unsentimental view, a commodity grower operates much like a steel mill. Business school taught him that bulk industries can't always recover their long-term average costs any better than farmers. "So they don't waste management energy prognosticating about steel futures, fancy charts or sun spot cycles in their marketing plans. Instead, they sell steel every week so they are guaranteed the year's average price. Then they concentrate their talents on being low-cost producers," he says.

The formula sounds too simple, but Riensche's attention to low-cost farming works, helping him to grow the family farm from 1,700 acres to 6,200 acres in less than eight years. His portion of the business grew more than 500%.

"Not everyone can expand on that scale and continue to manage earnings," says Riensche's lender, Wells Fargo Vice President Jeff Hines of Cedar Rapids."He's grown at the kind of pace that would kill or stymie most other Iowa farmers." So far, he's never shown a loss.

Except for a 10-acre gift of land, all the capital in his half of the business he runs with his father, Roland, is his own. No shopping mall bought the North 80 and pumped him full of cash, no outside job subsidized his growth, no investors ever provided capital to the operation. Riensche and his father even took a broadside hit from the 1993 flood and 1998 hog market, yet had safeguards in place to limit damage so these unforeseen events wouldn't pose a mortal blow.

With loan rate prices and average yields, many growers can barely break even, Hines notes. "Ben is banging stand-up doubles. But he has such a low cost structure, he'll hit triples and home runs if we return to $3 corn."

Breaking the rules is trademark Riensche and an important element in his for-profit farming philosophy. "One of my friends in graduate school taught me that the way to extraordinary profits is to figure out the rules of the game, and then bend them as far as you can. I think that's what the legendary 10,000-, 20,000- and 30,000-acre farmers are doing. A lot of us just haven't accessed all the tools."

Riensche is the first to admit that his business approach may ruffle the feathers of more traditional farmers or even some farm management professionals. But here are the elements that he thinks can help any grower achieve low-cost, high-profit status in commodity agriculture:

By Marcia Zarley Taylor

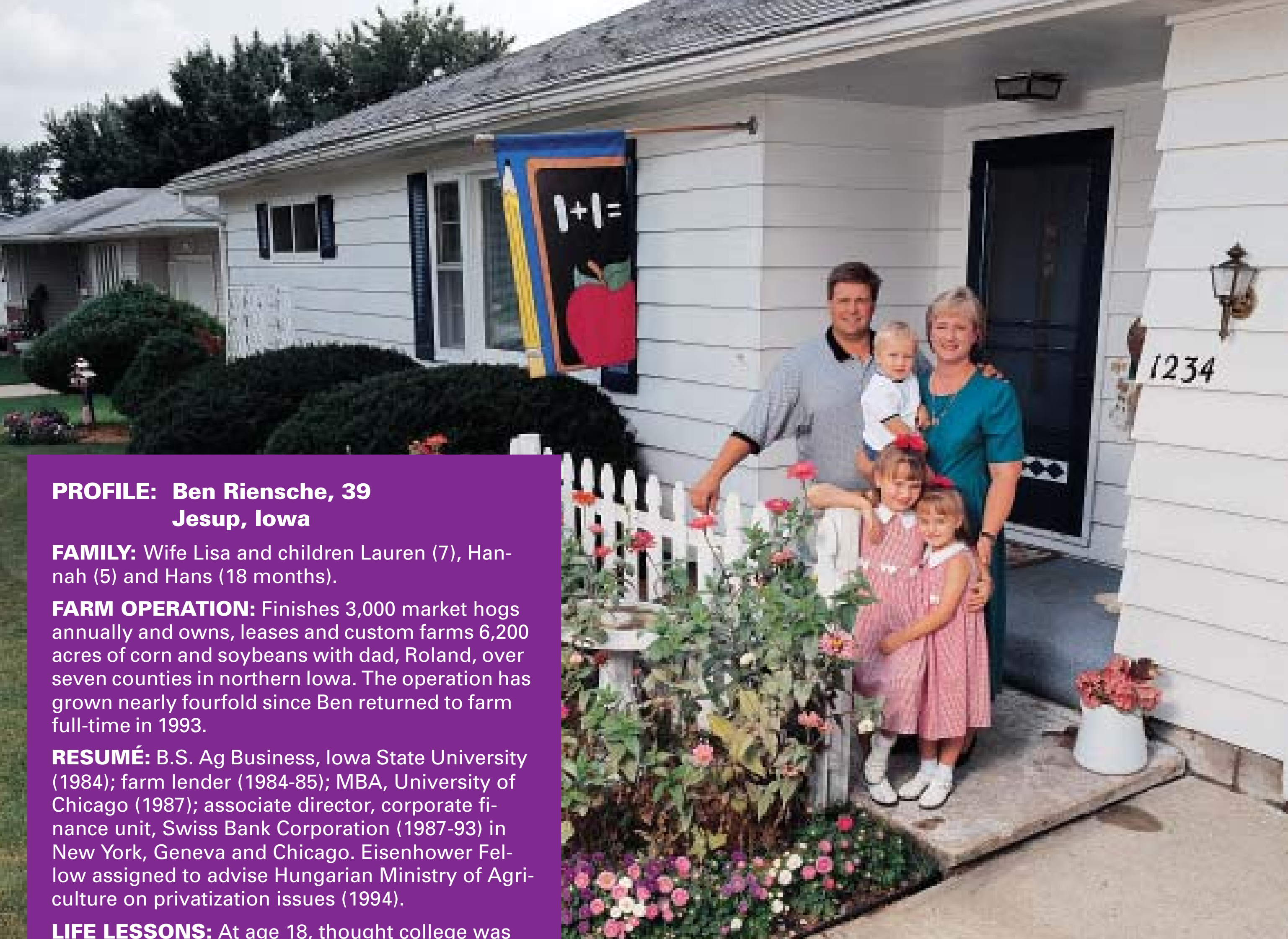


PHOTO: GREG BAKER

PROFILE: Ben Riensche, 39
Jesup, Iowa

FAMILY: Wife Lisa and children Lauren (7), Hannah (5) and Hans (18 months).

FARM OPERATION: Finishes 3,000 market hogs annually and owns, leases and custom farms 6,200 acres of corn and soybeans with dad, Roland, over seven counties in northern Iowa. The operation has grown nearly fourfold since Ben returned to farm full-time in 1993.

RESUMÉ: B.S. Ag Business, Iowa State University (1984); farm lender (1984-85); MBA, University of Chicago (1987); associate director, corporate finance unit, Swiss Bank Corporation (1987-93) in New York, Geneva and Chicago. Eisenhower Fellow assigned to advise Hungarian Ministry of Agriculture on privatization issues (1994).

LIFE LESSONS: At age 18, thought college was just four years when you couldn't make money farming. So he borrowed enough money to buy 80 acres at $3,400 an acre, and learned the cruel lessons of leverage just in time for the 1980s. He enrolled at Iowa State shortly afterwards.

RISK: "There's a vast dichotomy out there between farmers who are afraid to fail and those who aren't shackled by one or two failures along the way. Figuring your way out of a miscalculation is part of the fun that keeps farming interesting."

CONSPICUOUS CONSUMPTION: Live modestly and buy farmland. "My penchant for buying land sucks up the cash that others would spend on toys like fancy cars or big houses. In my opinion, owning farmland is way cooler than buying trinkets that provide instant gratification. Do you know any farmer who is just as proud of the kind of car his grandparents owned as he or she is of the family century farm?"

DEBT: Pay cash for land and borrow against your machinery. "Leasing is the most underused management technique on farms today. Terms are confusing and convoluted, but by figuring out discounted cash flows and compound interest, I find that I'm almost always better writing it off taxes than financing."

• ***Watch costs like a barracuda.*** "Farming itself makes no money, it's where you incur costs that counts," he says. Riensche makes a point to perform all high-margin tasks himself, such as spraying. When buying inputs, he aims to be an important customer to his suppliers. "If you can't offer a merchant big volume, be a low-maintenance customer," he says. "Better yet, be a low-maintenance customer even if you are a vendor's biggest client. Don't ask for special favors unless you're prepared to have them factored into price."

Big farmers swing volume discounts more easily, but size need not be a competitive advantage: Before he could command volume discounts on his own, he partnered with a pool of farmers for huge, cash-and-carry drop shipments of herbicides.

• ***Dump old nag acres.*** There's not as much profit in ag as 25 years ago, so you have to work on $50 to $75 per acre margins, he reasons. In years like 2001, it's even less.

All other things equal, it's easier to achieve that profit on high-quality land. When cattle prices are high, old nag cows bring the same as heifers. It's the same with bonds and yield curves. As land prices have rallied in the 1990s, Riensche and his father have traded "old nag" acres for undervalued, silt loam soils up to 80 miles from home. He's convinced that Iowa's 1950s-era soil rating ▶


PHOTO: GREG BAKER

How Ben customizes his playbook

"When I meet a successful farmer, I ask myself, why is this person's farm prosperous?

"In answering that question, I am intrigued how much financial strategies vary. Some eschew debt, expand only with capital generated from earnings and pounce on opportunities in down cycles with rock-solid finances. Others view capital as an input much like seed, fuel or fertilizer and fearlessly incur debt to expand.

"The biggest megafarms seem to have realized how important it is to dilute fixed costs. Many of these operations are 100% do-it-yourselfers who spray, fertilize, process and transport the entire crop, capturing every cent of the margin along the way.

"A handful of farms, big and small, have almost no fixed costs and laugh all the way to the bank. They command razor-sharp deals from merchants and custom operators who plant and tend their crop. So what's the optimal strategy?"

Role models. "There are two kinds of farms that always capture my curiosity. First, the megafarm. The place with all the acres, tractors, trucks, grain legs, bins or employees you can imagine. Maybe it's just bewilderment about how they keep it all in motion that intrigues me.

"Second, I admire the 'Top Gun' producer. This is the pilot that flies better and cleaner than anyone else in the squadron. Their crops look pristine, their farms are immaculate, and they have a machine shed that has nicer equipment than the new stuff at the dealer! In my corner of Iowa, these farmers plant 1,000 to 1,500 acres, and every inch of the farm looks as manicured as a golf course.

"My strategy is to modulate between the two. I have aggressively expanded to lower fixed costs since 1993, but I have also tried to execute just as the Top Guns do. I don't think the groups have to be mutually exclusive. But to run a big farm with a Top Gun's perfection, you need a well-mapped-out plan."

system undervalues the productivity of former wetlands. Better drainage easily increases the productivity of some northern Iowa soils by 30%, his yield monitors show. Yet that land can be had for a relative discount today.

• ***Get mobile!*** If you live in an area where there are too few prime acres and you can't swing a dead cat without hitting another aggressive operator, broaden your sphere of operations. Find a spot where land is better or competition is taking a rest, he says.

"My drainage contractor does not think twice about packing up his equipment and keeping it repaired and fueled 50 miles away. So why should a fraction of this distance scare a farmer? Just plan ahead."

Planting Roundup Ready, Clearfield, Liberty Link or other herbicide-tolerant crops makes long-distance farming possible. Riensche forgets about weed escapes in distant fields and stocks his tool box with parts the crews are most likely to need 20 miles from home.

"Trading wagons for trucks opened new market opportunities up to 85 miles away at river terminals," he says. "One hidden benefit is that a dispersed geography spreads weather risks and keeps machines busy every day during the busy season as showers hit and miss our most remote farms."

• ***Identify high-margin segments of your business***. "Turnkey custom farming has never appealed to me because it ties up my entire line of machinery to make about $20 profit per acre after fully costing repairs, labor and machine replacement," he says. "I would much rather grow my own crops and have significant potential to double or triple my profit." Instead, he aggressively bids on spraying and harvest jobs because that's what's in surplus capacity on his farm.

"High-margin opportunities vary greatly from farm to farm, but once identified, they can be a cash cow," he says. "I'm a banker at heart, not a mechanic. But gifted shop wizards can earn income welding and handling repairs all winter. Other guys can convert their ag equipment for snow removal and make $65/hour. Then they're starting to bill like a CPA and are turning nonproductive assets into moneymakers in the off season."

• ***Make your farm employee-friendly.*** "I try to make jobs simple, well organized and as fun as work can be," says Riensche. His job candidates may not have the farming experience of bygone days, but he overcomes that by purchasing automatic transmissions and twin equipment so training takes just a few hours and senior employees can supervise calibrations on two machines.

"If you buy two no-till drills just alike, you can send an experienced operator and a young pup to the same field and double your efficiency," he says.

• ***Buy dependable machinery with great resale value.*** He tries hard to live within the size, model and color of unit that attracts a multitude of buyers on the used market. "Jumbo

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combines are a good example of this in my area," he says. "Everyone who needs a jumbo combine wants a new one, so resale stinks. I solve the problem by getting two new middle-sized combines each year for not much more than one jumbo."

• ***Marshall your assets.*** "It really means accumulate only the assets that will make you the most money, get your capital the cheapest place you can and reduce your risk any way possible," says Riensche. Case in point: To fund his expansion, he leases equipment and uses spare cash to buy land.

Lease financing accelerates the write-off of machinery expenses and shelters him from taxes. If agriculture falls into the abyss, his tractor, his auger or his semi may be repossessed, but his land is safe. "I'll just go farm with old junkers until times turn around," he says.

• ***Don't use a crystal ball to market.*** This is perhaps Riensche's most controversial tenet, but it has been hardened by reading dozens of market studies that conclude few price pickers can outsmart the market over time. For example, only 9% of the active mutual fund managers could beat the S&P 500 in the decade ending in 1998.

Confront your weakness. "I admit I'm a marketing wallflower," Riensche says. "There's a far better chance that lightning will hit me than me picking the market tops. So I settle for a market average and figure I'll beat most of the prognosticators most of the time. With the time I save by keeping my marketing plan simple, I can concentrate on cost control in other areas."

Riensche subscribes to the Random Walk theory—i.e., widely traded stock and futures markets absorb all the news available each day. Markets have no set pattern of behavior, and it's anybody's guess which way they will move.

"I learned about this approach in business school, and saw it implemented as a lender," he says. "It's really how many large institutions in the equity and bond markets price their products."

In practice, he markets each crop over an 80-week period, always selling 1/40 of his crop, half in advance and half in arrears. "I always knock out the six weeks at harvest, and the year-end lows from tax-motivated sellers. I also avoid the John Deere low of March 1, when people are making land or machinery payments," he says. Outside of those 12 weeks, he is always in the market.

Some homework. "This doesn't absolve me from watching long-term forecasts of the market. I try to time the optimum moves for loan deficiency payments, and I use futures and puts. I still have to manage basis. Sometimes I've sold all cash by Valentine's Day and bought all the grain back in a futures position. I have to look at when I have time to deliver."

The strategy has yielded respectable results for most of the 1990s, thanks to Riensche's disciplined sales. He earned an average of $2.48 on his 1995-99 corn crops and $5.96 on soybeans during the same period.

Shooting for average sounds pretty traditional for a nonconventional guy, but recent studies may confirm Riensche's bias. Only five of two dozen advisory services tracked by the University of Illinois AgMAS program could beat a daily cash sales strategy similar to Riensche's for the 1999 crop. Over a three- or five- year period, the professionals had great difficulty consistently beating the benchmark.

Riensche's true measure of success has been real gains in net worth every year since he started farming, no matter what curves the economy or markets have thrown his way.

In fact, the financial performance of his farm rivals that of the pre-crash Nasdaq stock portfolio. Does the former Swiss banker ever regret leaving his corporate perks and six-figure salary? "No way," he grins. "I'm doing much better farming." ■