

Red Flags

In our experience at RAFL, we have seen farmers take on more debt than they could handle without realizing it upfront. Some situations that got farmers in the most trouble are listed below. If any of these things are true of your operation, it does not mean your plan will fail, but it does mean you should have backup plans and personal savings in case of difficult times.

The following are examples of risky situations that require additional planning:

- Planning to pay off land and cover family living expenses with income from a contract chicken farm.
- Putting all of your family's assets, including your home and farm, as collateral on the loan for the contract chicken farm.
- Not having a significant amount of savings or other income to cover business and family expenses in case of disease, weather catastrophes, or changes in your contract. (In these hard times, many farmers have resorted to using credit cards for utility bills or other expenses, which can turn into a cycle of debt that paralyzes your operation.)
- Not having a diversified operation. Multiple sources of income can stabilize your operation through down times. Depending on a chicken contract for the majority of your income can expose you to significant risks.
- Failing to properly account for depreciation in your cash flow or business plan. You are able to write off **depreciation** on your new equipment, but the amount you save on your taxes in your write off **should not be used as if it is cash income**. You will need to plan for your equipment to wear out and require updating. Depreciation write offs should be saved to replace or repair the depreciated asset. If your income or cash flow projections in the first 5 to 10 years of your operation are positive only because of depreciation write offs, then you need to reconsider if this business is sustainable.

If you find yourself in any of these situations, you may want to contact a farmer advocate to discuss your business plans before proceeding.

Confirmation Bias

Confirmation bias refers to a tendency in all of us to only seek out information or evidence that confirms what we already believe. This can impair the decision-making process. Once we make an initial decision, we seek out and emphasize information that **confirms** that decision. We tend to not value information that contradicts our decision. We see confirmation bias every day. For example, think of how car dealerships offer test drives, or allow you to keep the vehicle overnight. After the customer visualizes themselves in that car, they tend to stop critically considering whether the vehicle is the best fit for them. Once

you see yourself there, you tend to shut out critical voices or other options.

The same is true of a farm investment. The tractor dealership will give you hats and fancy brochures, and the chemical company will paint the picture of perfect crops. The same is true of poultry contracts.

The difference is that buying a vehicle or a tractor doesn't carry the same financial burden or risk as signing a poultry contract and borrowing money to build a poultry farm. In making a decision this big, you **can't afford** confirmation bias. You need to actively force yourself to seek out information **outside your potential integrator**, to carefully consider all possibilities of the operation. A farmer once told us, "I am open minded, but I am hard headed." That makes sense, and is a good approach to take.

As you look at an opportunity, it is often easy to see your potential success. Many people will make money if you sign the contract and take out the loan; such as the poultry companies, the bank, and the people selling you equipment. These people will do their best to ensure you see the investment in the best possible light. However, it is **your responsibility**, and **yours alone**, to evaluate the risk of starting a poultry farm, and consider what could be lost. Remember, company representatives have the company's best interest in mind, banks have the bank's best interest in mind, and poultry equipment companies have their best interest in mind. **ONLY YOU** have your, and your family's, best interest in mind.

