SMALL FARM *digest*

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FARM FINANCIAL MANAGEMENT

PHOTO BY ***Kathleen Painter***

Why Farmers Should Care About Farm Financial Management

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My favorite quote about farm financial management is from John Hobert, a Farm Business Management Instructor, with the Riverland Community College in Minnesota. He says:

> "Running a Farm Business without Records is Like Running a Clock Without Hands!"

John's got it right.

So, why all the attention to farm financial management and it's cousin, farm records? And, why is understanding this information relevant for small, mid-sized and family farms and beginning farmers and ranchers? The answer, quite simply, is that without a firm footing in farm financial management and farm records, the farm is in jeopardy; you won't know where you are going, and you sure won't know when you get there!

The objective of all farm financial management programs – conducted by traditional Extension professionals, public educators, or by nonprofit, community based , and the private consulting sector – is to help farmers improve their basic business management skills. By improving business management skills, the farmer/rancher will see improvements in productivity, profitability and will be able to more readily fulfill short- and long-term goals.

Why keep good farm records? Records aid the farmer/rancher in obtaining credit and determine loan repayment ability, and in today's environment will be absolutely critical to proving creditworthiness. It is also clear that making sound farm marketing and production decisions are inextricably linked to sound recordkeeping and detailed financial management.

According to a 2009 Agricultural Financial Condition Survey conducted by the Center for Farm Financial Management, 83% of those responding were of the opinion that producers will face financial stress in the next three years. Ag lenders specifically (80%) felt that producers would be facing financial stress. And of those responding, most felt that agricultural business records, cash flow and financial management skills were areas in which producers possessed only moderate level skills.

But, beyond the obvious access to credit issues, farm business records and financial management skills help the producer plan cash flow, identify strengths and weaknesses, evaluate new market opportunities and existing market experiences, find out which farm enterprises are the most profitable and which are costing money.

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Farm financial management tools can be varied: they involve strategic planning, financial analysis, business entity selection, crop and livestock enterprise analysis, farm machinery economics, risk management, crop insurance, economics of alternative enterprises, marketing planning, payroll recordkeeping, legal risk analysis and avoidance, tax laws, land purchase and leasing, estate planning and farm succession, and understanding the economics of your chosen production methods.

Many times producers focus only on the production side of the equation and neglect the financial planning side. While production issues are very important, they are not the entire picture for any size farming operation. And in today's economic climate, being out of balance can be costly.

We learned tremendous lessons in the farm financial crisis of the 1980s and if all goes well we will not have to repeat that trying scenario in the 2000s. But input costs and land values continue to rise and the farming and ranching operation must keep even closer tabs on its overall financial picture.

In terms of accessing capital – which is a critical aspect of any farming and ranching operation – there will no doubt be evolving changes in regulations controlling access to capital and the records needed to support a request for capital for the farm. How farmers manage capital once they obtain it and how they keep records related to the entire farming/ranching enterprise, can, in the end, be an even more critical factor of success than which production method to use.

Risk at the small farm level can leave very little room for error. Farm financial management is as important, to the smaller family farm as it is to any other size and type of farming or ranching enterprise. Recognizing potential risks and the deficiencies and potential failures in recordkeeping and financial management tools is the key to keeping the smaller farming enterprise up and running.

On the flip side, knowing actual costs and how to control them; keeping accurate records and production data; understanding balance sheets and production costs per unit; recognizing weaknesses and finding ways to improve financial habits, are all signs of potentially profitable farming and ranching operations.

Detailed farm financial management requires you to begin at the beginning – with a comprehensive plan for your operation and then to follow through with your plan. The roadmap for that journey is your records and the record keeping map will help you find your destination in the farm and ranch journey. Or, said another way – it's putting "hands on the clock!

Planning for Success: a Business Plan Guide for Minority Farmers

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Planning the farm business is a key aspect of the farm operation, although it may not be the most enjoyable task for the farmer. In order to succeed, farmers need to take care of a variety of tasks that go from production decisions, to family situations, to market fluctuations, to regulations, to legal aspects, and others. Farm risks are additional aspects that farmers face and need to be prepared for. Besides these various tasks that all farmers need to pay attention to, minority and women farmers face unique challenges, such as cultural differences, language and communication challenges, indifference, or even discrimination.

Latino farmers are the fastest growing population entering farming. Many have the entrepreneurial spirit and hard working attitude but lack the training and assistance to succeed in farming. Efforts to assist them that were translated in bilingual risk management workshops were a good first step, but it demonstrated that additional tools were needed to increase their ability to plan and implement their farm operations. As a response to this need, the University of Missouri's Community Food Systems and Sustainable Agriculture Program developed a Spanish language "Business Planning" guide through a grant from the North Central Region Risk Management Education Program.

The guide provides details, examples, and worksheets on writing a business plan, including farm history and family values, vision/goals, production planning, resource management, marketing strategies, and monitoring/evaluation. It was developed and adapted based on the publication "Building a Sustainable Business, A guide to Developing a Business Plan for Farms and Rural Businesses," created by the Minnesota Institute for Sustainable Agriculture. The guide covers some essential steps to write a business plan. Most of the information below is taken from the "Building a Sustainable Business, A guide to Developing a Business Plan for Farms and Rural Businesses."

Before you begin: Why a business plan? Who should be involved?

A business plan is a road map to increase sales, transition to other type of production, such as organic, establish new operations (a bed and breakfast, for

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Photo: José L. García-Pabón

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instance), switch from crops to livestock (or vice versa), etc., envision the farm in the future, anticipate possible obstacles, penetrate a new market, or even prepare to pass on the farm and enter retirement, etc. Once you understand the reasons for you to develop a business plan, it is important to identify who will be involved in developing your business plan. During the planning and implementation process you'll be part of a team. A team has many advantages, including several "brains" thinking about the same idea or issue (brainstorming) and brining different skills to the table. In addition, your team members will be the strongest supporters of the plan, since it's theirs, too. The team members can go from spouses and other family members, to employees, partners, renters, customers, other farmers, farm service providers, to extension specialists.

Before starting you need to answer the following questions:

What things motivate your plan?

Who are your business plan team?

How will you use your business plan?

Task 1: Values and beliefs. What matters to you?

Your values are important for the planning process. Those are the foundation for your business choices, your personnel aspects, and where you ultimately think your farm should be. However, your values are not your goals for your farm. Your values are the things you believe in and are important to you and that reflect your worldview.

If you have a profound sense of land stewardship and believe in the connection between your and your family's health and the health of the environment, that is a value that will guide your business plan and the decisions you make regarding conservation and the use of chemicals on your farm.

Value identification is very important, in particular if you are working in a team. You need to be aware of your team members' values as well as they need to be aware of yours. An early recognition of differences and similarities in values will lead to easier goal setting and disagreement solving in the planning process.

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You can ask yourself what it means to be "successful" or think about a critical moment in your life where you had to make a serious decision involving a tradeoff. What values guided your decision? You can also try to identify what you believe in regarding your community, the environment, your economic situation, etc. You can do the same exercise with your team members and then identify the common values for the entire team and those that are different for each team member. This value identification will be very helpful in developing goals that every team member identifies with.

Task 2: Farm history and current situation

Your second step is to have a clear understanding of the farm history and its actual situation. Begin by preparing a brief history of the farm, the family that ran it for the last year (or few years), and the business. This historical snapshot is important not only to look at what has changed (or not) in the past for the farm and the family, but also to show others (lenders, entities, advisors, friends and relatives, etc.) the changes and dynamics of the farm. Include here not only the "what" but also the "why" and the "how." You should also describe important milestones, achievements, and failures, as well as your lessons learned and the connection of your farm decisions to your values.

The second piece in this task is even more crucial and refers to a systematic assessment of the current farm operations in terms of marketing, operations, human resources, and finances. This is your opportunity to do an inventory of farm operations and evaluate how you are using them.

Start with the *marketing* aspect of the farm. You should provide answers to these key questions: What is our product? What markets do we serve? What are the unique features of our products? How do we distribute our products? How do we promote our products? How is the market changing?

After your marketing analysis, continue with your *operations* assessment—look at the physical resources on the farm. This assessment will answer the following questions: What physical resources are available for our business? What production system are we using? What management system do we have in place supporting our business?

You will examine your production system—that is, you will reflect on and write about your crops and rotations, the timing of your operations, what machines and inputs are being used, how much you produce, and how it is stored, processed, and delivered. For livestock production, operations include a description of activities that take place by period of the year. Those periods will vary according to what livestock you are raising. A good guide to determine the

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length of the periods is connected to the use of labor and other inputs on a daily basis. It is very important to discuss how each operation (crops and livestock) fits together. Your final piece in your operations assessment is to look at your management and your information system. Do you review your production records regularly? How do you get information that helps you run your farm more efficiently? Are you part of a larger network of information?

Once you have finished the operations piece, you need to focus on your *human resources situation*. People are the most essential piece of your farm operations. Human resources are anyone who contributes time and effort to the operation, paid or unpaid. You should answer these questions when doing the analysis: Who is involved in your business and what are their roles? What are our unique skills? What skills do we lack? Will our labor situation change in the near future?

Finally, your last piece of your current situation analysis is the farm's *financial situation*. This is important especially if you'll apply for external resources. The assessment includes the value of your physical resources and the farm's current income. These are the questions to be answered when preparing this section: What are the current family expenses? How well has the farm performed in the last few years? How strong is the current financial position? What risks is the farm exposed to? What is the current business environment, and how it is changing?

Task 3. Vision, Mission and Goals. Where will your farm be in the future?

This part might be very enjoyable because it allows you to dream the future of your farm. You looked at the past and assessed the present regarding your farm, now you will *envision* a picture of how your farm will look like 5 or 10 years from now. You can start brainstorming on what services or products you will produce, if you will be working with animals or crops or both, who and how many will be involved with the farm, what portion of the family income will be from the farm, etc. Consult with non-team members, relatives, or friends when preparing the vision. You can write a story, write just a couple of sentences, or use a picture or a drawing. The *mission*, on the other side, is more like a statement of purpose. It is one or a few sentences about why and how your business exists. It can include your values and/or your products, markets, etc., and it should be related to your vision. The mission has to be short and relatively general. The farm *goals* represent the first step of your working strategic plan. Goals are important for the family because it gives a clear sense of where the farm is headed to. Goals are also important for lenders and some

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regulatory agencies, thus are necessary, too. Goals describe what you want to achieve. Goals can be relatively general, describing where the farm should be in 1, 5, 10, or more years; but also can be broken down in terms of marketing, operations, human resources, and finance objectives. You can write many goals, but it is important that they are realistic and are the priorities for you and your family.

Task 4. Strategic planning. The road map

Here is where the "rubber meets the road"—in other words, it is thinking carefully what steps are necessary to get where you want to be in the future. This plan includes weighing different "roads" and identifying those that are more likely to take you to your goals.

Specifically you will

- develop a business strategy;
- evaluate alternatives;
- decide on a whole farm strategic course of action; and
- develop contingency plans.

The strategic planning will address all four functional areas of your farm: marketing, operations, human resources and finances. In relation to the *marketing*, your strategies will address questions such as: Who are your target costumers? What do they value? What unique product will we offer? Who are our competitors and how will we position ourselves? How and when will we move our product to market? How will we price our product? How are we going to promote the product?

In the second functional area, *operations,* your plan should answer these questions: What production and management will we use? How will we produce? What are the regulations for my product? What are the physical resources needed and how will we obtain them? How much can we produce? How will we store inventory and maintain product quality?

Your strategic plan should also address the *human resource* functional area by answering the following questions: What are our future workforce needs? What skills will be needed? How will we address workforce gaps? How will we pay family members and workers? Who will manage the business and how?

Finally, the *financial* section in your strategic plan deals with questions such as: What will the future business environment look like? What are possible risks and how will we manage them? What legal structure will the business have? How will we finance capital needs?

Up to this point, you should have a pretty complete business plan and be ready to implement it. Although this short overview covers the different components of a business plan, the farmer needs to understand the interconnections among those components and choose the best possible whole farm strategy. Finally, it is also important to develop a contingency plan.

Why Keep Careful Farm Records?

Motivations for the Small Farm or Farm-based Business

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Do you really know how much money you have invested in your farm or small business? Are you gaining or losing equity over time? Can your operation really afford to purchase an expensive piece of machinery? In past years with less economic volatility, perhaps it wasn't so important to keep careful records and figure out your costs of production. With the recent roller coaster rides we've seen for crop prices, fuel, fertilizer, and the economy in general, fortunes have been made and lost based on the timing of marketing and purchasing decisions.

This article will present several tactics for managing records as well as some important motivations for improving your recordkeeping. Systematic recordkeeping helps with many management decisions, from crop choices, to determining proper insurance coverage, to selling decisions.

The most basic problem in recordkeeping is very easy to remedy but can also be the hardest to solve if you ignore it. Can you guess what it is? My students have complained that this is a kindergarten lesson—but you know what they say about the importance of what we learn in kindergarten. I'm referring to keeping track of every activity that relates in some way to financial records and management. You need to have a systematic procedure for handling data. You might start with a new set of colored file folders and a hanging file holder in a convenient location. The next step might be entering the data into a simple spreadsheet to track expenses. A variety of attractive budget templates is available for downloading; just search either within Excel or via any Internet search engine.

I had a farm-based business selling fiber from my handspinner's flock as well as what eventually became a very large inventory of spinning, knitting, and weaving supplies. When you're managing a growing business in addition to part-time work, a young family, and a small farm, recordkeeping often doesn't happen like it should. As the business segued from a small mail-order company to a large Internet business, I had to get organized. Paper had to be dealt with in multiple stages. First, into task-based file folders: orders; bills to pay; paid bills to file; and customers to add to database.

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Life is easier if you know what to do and can break down your tasks into small chores. Plus, you can get help from others if you have a good system.

If you want to finance an investment through the bank, your records need to appear professional and you need to do some careful analysis of the investment. Although interest rates are low, bankers today are even more wary of risky investments. If you haven't documented your costs, it will be harder to make the case that a different investment would be an improvement. You may know it will save money, or time, but how much? You need to lay out your costs in a systematic way. Initially it could be quite simple. For example, what do you expect to produce? At what price? What are your major expenses? If you can document all your factors of production you will be able to answer the questions posed above. If you do it in a flexible spreadsheet program, you'll easily be able to generate a number of scenarios.

Some factors of production are much more complex to estimate than others; take machinery, for example. How much money have you invested in your machinery? How much money does it take to maintain it? Ideally, you should be able to calculate per unit machinery costs ($ per bushel of wheat or pound of cattle sold) if you know the answers to these questions. If you are wondering whether you should invest in a new piece of machinery, you need to know whether you can afford it based on your production levels. There are a number of machinery cost calculators available that will do the complex arithmetic necessary to estimate costs per operating hour or per acre. I reference several on my website.

I have worked for the last several years to develop flexible Excel-based crop enterprise budgets. My job of tracking crop costs and returns would have become a nightmare without the use of these spreadsheets. Crop and input prices, including fuel and interest rates, are adjusted in one spot, and all of the budgets and graphs immediately reflect this change. Color coding on the spreadsheets clearly specifies where adjustments need to be made. While these budgets may not be appropriate for your region or crops, this approach is very adaptable and useful. Some of us see the world through rosy-colored glasses, and our projections are based on best-case scenarios. Others cannot visualize success and feel that nothing will work out for them. Realistically, we often contend with a great deal of uncertainty, so I recommend using a spreadsheet to look at the best and the worst case scenarios for your enterprise. See my website to learn more about these cost calculators.

Careful records make many tasks less daunting, including such critical ones as whether or not you can afford your rent

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or if you will have enough money to cover your living expenses. If you itemize all your costs and expected returns except for the land costs, then your net returns represent the residual to pay your rent, or net returns to land. Similarly, if you don't include the value of your labor in your enterprise, the residual represents returns to management—essentially your wages. If you document all your costs and returns, then you can track returns to equity—the return on the investment in your farm. If you don't like what you see, this systematic evaluation might give you some ideas for improvement.

One of the best features of a Web-based business is its flexibility. If something isn't working, take it off your Web site and put it in the clearance bin. Most importantly, figure out what IS working. I realized that the remainders I was getting from a major U.S. yarn manufacturer were selling like hotcakes. I could buy their mill ends by the pound, then sort them out and put them on my Web site. I had the thought that someone could make a business out of reselling these small batches of high quality yarn. These mill ends became the bread and butter of my business, a steady income flow that I could rely upon. So, keep your eyes open and look for opportunities!

I used Quickbooks, Excel, and Turbo Tax in my business and managed to be sufficiently organized to survive, but it wasn't easy. I can't say that I ever precisely knew the economic returns from my business. It is very complicated to value contributions by the various factors of production such as your land and labor. I did know that I was building up a huge equity in inventory, but that my take-home salary was pitifully small given the hours I put in. When I sold the company about 4 years ago, I was grossing $200,000 per year. Fortunately, I was able to find a local buyer for my Web-based business, and they are still going strong.

No matter how much you love your product and the idea of your own business, no one intends to lose a bunch of money doing it—yet most small businesses fail. Spend sufficient time and energy to figure out your costs precisely, and under various scenarios. Do your research. Does the market exist, or will you have to create it? Don't fly by the seat of your pants. Start small. Don't risk more than you can afford to lose. Be conservative, because you cannot possibly anticipate all the hurdles you may face. Keep your day job. Quit when you're ahead. Running your own business, whether it's a small farm or something else, requires superior managerial skills and the ability to wear multiple hats. Creating my own business from scratch, with no capital, was a very rewarding experience but also very stressful. I am grateful I was able to sell it and get my money out of the inventory plus a small profit.

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Making Your Farm Business SMART

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The entire farm family needs to be involved in the planning of the farm operation. By doing this, each person's goals are evaluated to see if and how they fit into the overall goals of the farming operation, and to see if they can be realized. Have all family members write down what they like to do on the farm, the time that they want to invest, and how they see the future of the farm. Then have a family meeting. Develop a written mission statement for the farm to show why it exists, its values, what the farm business will be (or currently is with the family's modifications), and what it will accomplish. This provides the basis for developing the farm business's long-term plans, goals, and objectives with the farm's mission statement as the target. The farm manager will then develop business plans, enterprise budgets, market plans, and financial statements to see if the operation shows a profit, has a positive cash flow, is a good use of time, labor, and money, and has any opportunities or weaknesses that need to be addressed.

Business planning is about finding, describing, and refining the farm's competitive advantages and moving the farm business in the direction to reach its goals and objectives. The operation needs both short-term plans (e.g., do I sell weaned calves this month or next month) and "strategic" or long-term plans (e.g., do I buy more land, put up a building, or do I invest in more breeding stock). These plans provide a roadmap for management of the operation that helps all parts of the farm (production, marketing, and financial) flow smoothly. The planning process helps to:

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One thing I do know is that I was never paid for my time, and I'm grateful to be working in my profession and earning an hourly salary! But I love being home on the farm more than anything, so I'm definitely thinking about new schemes for my retirement years.

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1. Identify the goals of the farm business (what you want to accomplish). In short, the farm's goals should be SMART, attainable, and move the farm along the targeted path. A SMART Goal is:

   a. **Specific** (a goal that has a specific thing to do and can be defined)

   b. **Measurable** (the goal can be measured and can be proven)

   c. **Attainable** (the goal is realistic, the farm business can reach the goal)

   d. **Rewarding** (the goal will move the farm operation toward what the family wants it to be) and

   e. **timely** (there is a time limit to reach the goal)

2. Identify the farm's inventory and resources (what you have to work with):

   a. Physical and natural resources, including water and soils

   b. Human and personnel resources

   c. Animal, pasture, and crop resources

   d. Equipment, facility, and machinery resources and

   e. Financial resources

3. Assess the farm business and the environment in which it operates (where you are and where you may want to go). Essentially, have the farm family so a **SWOT analysis** of the farm to list and identify:

   a. **Strengths** of the farm (internal, that can be your advantage)

   b. **Weaknesses** of the farm (internal, where the farm can improve)

   c. **Opportunities** (external, new opportunities, location) and

   d. **Threats** to the farm (external, what can we do to offset them)

PHOTO BY Marion Simon

4. Analyze the performance of the farm business (how you have done in the past based on the farm's historical financial statements and records)

5. Decide upon a course of action (what you will do)

6. Implement the strategies (how you will do it) and

7. Evaluate the farm plan annually (is it working, were the goals for the farm met, does the plan need to be revised or need to be continued into the following year).

U.S. Agriculture and the World Economic Downturn: Implications for Small Farmers

Kristen Grifka, CSREES—USDA[1]

U.S. Agriculture and the World Economic Downturn: Implications for Small Farmers

Over the last several months, the United States has been hit hard by the worldwide economic downturn. These economic conditions are very dynamic, with significant events in both the private and public sectors occurring almost daily. It is difficult for economists to predict how long the recession will last, however, most economists predict negative growth for the U.S. economy for most, if not all, of this year and that it will impact every sector, including agriculture, either directly or indirectly. In the short term, the impact of the economic downturn on agriculture will affect both supply and demand, however, the effects will be different for agricultural producers based on the type and size of their operations. The good news for U.S. agriculture is that high prices, record profits, and conservative borrowing habits have provided some protection from the economic downturn.

What does all this mean for agriculture?

Fortunately for agriculture, farm borrowers were in a strong financial condition going into 2008. Estimated profitability of U.S. farms in 2008 was a record $89.3 billion. This may soften the impact of the recession on agriculture.

However, there are several issues that may have a negative impact on agriculture in the short term. First, farm income is expected to decrease in 2009, especially as foreign demand for U.S. agricultural products is likely to decline as incomes worldwide shrink. According to USDA's Economic Research Service, "net farm income is forecast to be $71.2 billion in 2009, down $18.1 billion (20 percent) from the preliminary estimate of $89.3 billion for 2008. Still, $71.2 billion would be 9 percent above the average of $65 billion earned in the previous 10 years."

Second, as financial institutions confront the fallout from troubled assets, credit availability may continue to constrict. Continued disruptions in financial markets could lead lenders to make fewer loans. Depending on how banks and borrowers respond to government interventions, such as the recent "stress testing" of major banks, funds available for lending may decline if lenders need

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to increase their reserves. According to the Federal Reserve's survey of agricultural credit conditions, lenders will tighten their underwriting standards. Borrowers should expect increases in collateral requirements. "Credit provided by some input suppliers could be affected by the lack of credit available in the commercial paper (short-term borrowing between banks and large companies) market. Consequently, producers should be especially careful in assuming that such sources of credit will be available." However, most agricultural lenders have not been involved in the risky financial transactions that have hurt other financial institutions so their ability and willingness to make loans is not as constrained. Furthermore, agricultural lenders and borrowers tend to have long term relationships that will help maintain the flow of loans to farms.

Third, problems in the credit markets are also leading to decreases in the availability of export credit. Exporters are demanding greater evidence as to the creditworthiness of import buyers and their financial institutions; all of which will likely lead to decreases in U.S. exports and commodity prices.

Fourth, increasing unemployment rates have reduced the opportunity for farm families to enhance their family finances with off-farm income. This is particularly troubling as the economic well-being of most U.S. farm households depends on income from both on-farm and off-farm activities. According to research by Mark Drabenstott at the Rural Policy Research Institute's Center for Regional Competitiveness, the recession is affecting rural communities differently depending on their economic base. Rural communities that are dependent on farming were growing until September 2008, whereas rural communities dependent on manufacturing have been in a slow decline since January 2008. These findings suggest that the strength of the agricultural sector has provided some protection to farm-dependent communities during the recession.

Finally, production expenses are expected to decrease. All producers should benefit from declines in energy prices and fuel-related costs. The livestock sector should also benefit from reduced feed costs. However this comes with the reduction in prices for commodities that are tied to biofuels, such as corn, However corn and soybean prices are still well above historical averages. It is also important to note that farm expenses have increased since 2002 and in 2008 we saw the largest year-over-year increase on record. Therefore, expenses are still high even though they should decline.

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What does all this mean for small farms?

Declines in foreign demand may have less of an impact on small farmers since they are less directly affected by exports. Small farmers tend to be more dependent on local markets, however, so what is happening in local economies and with local food systems may be more important. So far, interest in locally grown foods and "buying local" have not diminished much during the recession.

Regarding credit for small farmers and ranchers, recording and proving creditworthiness should be of utmost importance. In the coming years, farmers and ranchers should expect lenders to demand more information on repayment ability. Additionally, some economists argue that farmers should expect higher interest rates as greater competition for all forms of credit will affect the interest rates paid by borrowers.

The current economic downturn is unprecedented and difficult to predict and it is difficult to assess long-term impacts for American farmers and ranchers. Only weeks ago economists were questioning how long the recession would last. Now analysts are noticing some signs of improvements in the U.S. economy. The March pending home sales index from the National Association of Realtors increased 3.2 percent from February. Most economists are warning that if the recession persists in international markets and reduces foreign demand for U.S. agricultural products, then overall farm income will continue to decline. This could be compounded if the dollar increases in value, further reducing foreign demand. Additionally, farmland values are facing downward pressure. The extent of these changes varies by region and state. Nationally, farmland values are projected to fall by about 2 percent in 2009. However, as with farm income, farmland values are declining relative to historic highs.

Given that, it's impossible to know for sure what the impacts of this recession will be on agriculture, especially in the long term. Farm financial management techniques, such as maintaining good financial and production records, should be an important priority to farmers and ranchers now and in the future. These records are important decision-making tools for farmers and lenders. It's also important to be knowledgeable about insurance, forward pricing, and contracts, as well as other risk mitigation strategies. For more information on risk management education go to: http://srrme.tamu.edu/regionalcenters.html

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Lessons from the 1980s Agricultural Credit Crisis

Some in the agricultural community have asked if we are going to see another farm credit crisis like we saw in the 1980s, but some evidence suggests that lenders do not expect this; creditors have plenty of money to lend even though they will probably tighten underwriting standards. Many factors distinguish today's credit crunch from the crisis of the 1980s. Today, the government is taking unprecedented action to prop up the U.S. financial sector and economy as a whole. Additionally, agricultural lenders have maintained conservative lending habits, and farmers and ranchers make greater use of risk management strategies and tend to have less debt. Nonetheless, the success of farmers and ranchers requires good financial stewardship.

[1] This article was drawn from the following sources:

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Love Farming and Ranching and Like to Make Money?

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"That poor ole' farmer," people say. How many folks do you know who would go to their 8–5, not make any money, and on top of that be satisfied enough to go back for more the next day?! We all know farming and money to be like oil and water; the two never mix! But why? Is it really a physical chemistry disassociation thing, that one must displace the other? In the following we are going to talk about some key ingredients to add to that oil and water to make salad dressing!!

Folks are "called" to farming and ranching, and most would say it is an "in-our-bones-kinda–thing," brought on by their appreciation of the natural world and connection with nature and animals. We are drawn by the desire to cultivate a seed and watch it grow, and/or breed livestock and watch them grow. We are creationists and passionate guardians of our creations, heroic defenders against drought, pests, and disease. We like to feel earth beneath our fingernails and smell manure on our boots. We feel an enormous sense of pride and accomplishment when we deliver that truckload containing the fruits of our labor—the beautiful summer squash, turnip greens, and tomatoes, fresh eggs (the best in town), and that fine pen of yearlings, pigs, and lambs. Unfortunately, we have to add on a few more desirable traits to our genetic make-up in order to be successful in the farming business.

3 Cups: Farm Record Keeping

Farmers enjoy using intuition when it comes to managing our crops—and we intuitively "know" when we are making or losing money—Right? Hogwash!

One of the worst things (or so I thought) and best things to happen to me was when I landed my first USDA Farm Service Agency (FSA) farm real estate loan. As a beginning farmer I had to put up everything I had as chattel, because I really didn't own anything, in order for me to get started. I hated the idea that they owned everything (seemed the government was a little too much into my business, if you get my drift). I was remitted to a mandatory 2-day farm economics class and, like most, finessed my way through these

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especially bland 2 days, fulfilling my obligation, trying to stay amused and awake, and NOT really planning on having to DO much of any of this.

Then came the year-end meeting with my FSA loan officer… She, as a farm gal and having previously worked for the Internal Revenue Service, was especially rigorous. I had to give an account of every head of cattle, chicken, and hog on the place by age and sex, calving percentage, number sold, price per head (by age, sex, etc.). Provide numbers for the pounds of feed purchased for each enterprise and feed on hand; total meat and farm products produced and sold, by unit; all equipment purchased, on-hand and value of each. You name it, if it had anything to do with the farm it had to be reconciled. On top of that I had to prepare a budget for the upcoming farm year, planning for cull cows, chickens, products produced, and provide a detailed overall assessment of how the farm operation would go the following year. Oh boy, when she got finished with me, I asked if she needed a count of the hairs on my head as well, considering I had pulled most of them out!

As it turned out, this exercise was, indeed, priceless. But, needless to say, that first year I came up short on the numbers I needed, and knew I had to get things in gear. So, I created a spreadsheet in Microsoft Excel™ and customized it for my business—and, without knowing it, started myself on a successful pathway. The computer spreadsheet program is very simple and tells me what I need to know. It has columns that I understand, not all the economists' jargon, which worked well for me. I learned to keep all my purchase and sales receipts. I just throw them into a cardboard box when I clean out my truck, and organize them by category (spreadsheet category) when it comes time to enter the numbers. With this Farm Record spreadsheet I am able to do the Schedule F form for my taxes, so it effectively kills two birds with one stone. Bottom line is I make more money because I know what I spend and, importantly, where I can economize. I also have a detailed assessment of farm expenses for tax deduction purposes.

You can't possibly know what you are spending, and what you are making, if you don't keep records; and yes, it is more fun running your business this way. The really fun part is now being able to look at the multi-year history and observing trends. Have you grown or stayed the same? Are you netting more or less for your products? Do you need to increase your per unit price? Where are you making your money? Changes in input costs are very important these last couple years with the volatility in prices. Yes, I know the

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proclivity many of us have to put our heads in the sand for fear of seeing what our business is really doing. Fear not, and think of it like getting a physical and seeing if eating all that oatmeal and giving up the french fries actually lowered your cholesterol. Do the numbers and don't consider it a chore, consider it blessed money in the bank!

2 Cups: Direct/Niche Marketing

That summer squash, pretty as it is, ain't gonna sell itself at a profit for you, but more likely at a profit for somebody other than you. And that isn't the squash's fault. Farmers are renowned for believing the job ends at the farm gate. You have to raise it good AND market it good, and selling it good often requires you talking to somebody other than a contract buyer. It takes a lot more time and fortitude to go out and wrangle up business, but that is where the real money is.

My approach is two fold. When you have volume you have to move, you settle for selling a certain percentage of your crop via that route, while nurturing direct sales of your finest/freshest products locally direct or value added. These are customers you garner and deal with directly. Seek markets/individuals that appreciate/value your product and have the means to pay a premium price for your premium products. If unsure to go it alone, partner with another established farmer, CSA (community supported Ag), or network. In my estimation, one universal mistake small farm operators make is using large farm marketing channels, which are not designed to provide suitable profit margins for low volume production.

Another benefit to getting out and looking around for alternative markets is the benefit of finding out what's hot and what's not. What do people want, and can you provide it? Farming isn't just about growing what you want to grow (of course we would like it that way), but growing for a demand. There are fads in food, just like in clothing, cars, and computers. Many high-end restaurants today are specializing in serving locally-grown products, because the food prepared from them is superior and the clientele prefer healthier, tastier food and will pay extra dollars for it. Look for these chefs in your area and try to get something going. They don't know you're even there if you don't tell them!

Last but not least—make sure you acquire a fair and adequate price for your product. You aren't doing anyone any good if you go out of business because you didn't demand the price you needed to stay in business. Direct marketing is your opportunity to set a price. Do it wisely and with the knowledge of what you need to make your business profitable!

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1 cup: Diversification

The old adage of not putting all your eggs in one basket is O'-so-true in farming and ranching. If you have all your money on one venture and it tanks, you are sunk. It takes a little more coordination and creativity to diversify, but it works.

We are well aware that things move in cycles and in agriculture the bottoms and tops come about with lightning speed. Many elements beyond our control influence our potential gains and losses in any given year. Diversification effectively buffers the effects of one market crashing, because invariably another is sustaining or increasing to carry the weight of the others. Back for a moment to record keeping—good records allow you to see where to shift your emphasis under changing conditions.

Diversification can be broad (for example multiple commodity classes) or small (different end points within the same commodities), based upon what your resources will allow, but in terms of deciding what to put together, look at what you can do in a circular rotation. For example, plant cover crops for integrated pest management, feed livestock or machine-harvest this crop, then follow with your cash crop, and so on. There are many successful schemes that make sense on large and small scales.

Again, diversification can also include value-added. A look at calf prices last year was a rude awakening and a case in point. For example if calf prices are slim this year, retain your females and be set up to feed out and market more bred heifers. Place some cattle on feed and sell more fed beef. Be prepared to make a move when the cards change. Heavily cull your herd for now and increase your numbers in a few years after the market shows a shift in the positive direction. Don't just stand by and watch as your profits fall. Your "farmstock" market should be thought of and managed similarly to your financial stock market portfolio in terms of diversifying your investment.

Another important aspect is to have an exit strategy, and that means not investing so much capital on a project that you can't get out of if things go south. Folks often like to make a big splash when they commit to a new venture—an all-or-nothing kind of thing. My view, and what has worked for me, is to start small and conservatively and let the market dictate how far and fast you go in capital investiture. Remember you can make do with less. I'd be embarrassed to show my $150 Eggmobile made out

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of an old peanut wagon that I bought from a neighbor, but it has paid for itself 100 times over in egg sales.

The Salad Dressing:

With the ever-growing interest in sustainable agriculture, opportunities for small farms are perhaps better than ever in the history of American agriculture. The public is crying for farm fresh products and is asking for a shift from conventional agriculture. Sustainability, green space, pesticides, concerns regarding growth-promoting additives in animal feed, and humane rearing of meat animals has contributed to the public's interest in natural foods.

The time is ripe with opportunity for small farms to make strides in developing profitable farm and ranch businesses on the pathway to sustainability. Take time out of the field to plan, record, and market your operations and you will garner a much richer reward. Now more than ever in recent times, the small farmer can mix the oil and water and make salad dressing from his and her efforts!

The Eggmobile - PHOTO BY: ***Liesbeth M.Schmidt***

THE WOMENS' AGRICULTURAL NETWORK

Beth Holtzman, University of Vermont
Outreach Coordinator, Women's Agricultural Network

The Womens' Agricultural network (WAgN) has been providing education technical assistance and networking opportunities geared to the needs of women farmers since 1995. Through a series of educational, technical assistance, and networking opportunities, WAgN works to increase the number of women owning and operating profitable farms and ag-related businesses. From developing and assessing a business idea through the advanced planning and implementation phases, WAgN offers a program to support and encourage these varying levels. Combining informed decisionmaking with sound business management practices is central to all of WAgN's offerings.

Generally WAgN's educational opportunities fall into 3 categories: courses, workshops, and learning circles.

Classes are usually more than 4 hours long and are scheduled over a period of several weeks. Topics are usually broad and address business planning and feasibility. We offer courses in both traditional classroom settings and in online formats. Our face-to-face classes are offered at locations around the state. Courses we offer regularly include ***Growing Places*** and ***Taking Stock***. Most of our courses feature farmers, lenders, and other specialists as guest speakers

Workshops are usually 4 hours or less and take place in a single day. They tend to focus on a specific skill and we try very hard to make them as hands-on as possible. Very often workshops take place on farms and feature farmers as co-presenters. Sometimes workshop topics are addressed online.

Learning circles are more casual and generally take the form of a small group discussion around a particular topic of interest, such as packaging and labeling, or time management, or organizing your home office.

Growing Places was developed to assist individuals in exploring the idea of starting a farm or other ag-related enterprise. The course is

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organized into six different sessions, each addressing a different aspect of business development. In addition to WAgN staff, each session pulls in experts in that particular area to lead the lecture, discussion, and hands-on exercises that make up the course format. Guest speakers and panelists are an important component, and by sharing their experiences with the group, offer a much appreciated realistic perspective.

"The course covered a lot of topics at a reasonable depth, giving us concrete information as well as a lot of food for thought," said a recent Growing Places graduate. "Now I feel much more confident about what I need to do next."

Since our first Growing Places in 1995, there have been 32 cycles and over 275 graduates. Approximately 40 percent of graduates go on to start a farm business within 18 months of completing Growing Places.

Growing Places starts with the process of identifying values, and setting goals. These activities are pivotal because they help focus participants on the most important aspects of their business and honoring their values as they make business decisions. Next, participants learn about goal-based decision-making systems, and how to use them to come to the best decision given the circumstances. Growing Places then introduces strategies for evaluating resources, giving participants opportunity to identify their personal resources, and potential businesses that would make good uses of the resources they have available. The next two sessions cover the basics of financial management and marketing. Participants learn the "language" of money and credit, and key marketing concepts and strategies for small farms. Finally, Growing Places helps participants develop an action plan to move forward. They also learn more about all the various agencies and programs in place to support agriculture.

Taking Stock is for experienced farmers, usually with 5 or more years of production experience. It addresses issues that tend to arise in businesses that have been up and running for a while and could benefit from a progress check. The idea is to make sure that farmers remain happy with their businesses and also to prepare them for some of the common challenges that arise during the mid-life of a business, particularly

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The Women's Agricultural Network

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for women operators.

Topics include: planning and goal-setting; instituting policies and procedures; cash management, and refining owner/manager roles.

Participants are expected to select a project that will help them achieve a goal within their business to work on during the course. *Taking Stock* is usually offered during the winter months. Check the WAgN online calendar for dates and locations.

"Taking Stock really helped put my business in perspective and helped me see how I can improve certain enterprises on the farm," said Jill Kopel, a vegetable and flower grower who took *Taking Stock* in early 2008. Kopel said that the birth of her first child in 2007 triggered to need to re-evaluate some farm operations. :"Having Ruby as forced me to really step back and think about what's profitable, and what's not," she said. "Especially looking at enterprises from a labor point of view."

E-Commerce Classes: Since 2007, WAgN has partnered with the University of Vermont Center for Rural Studies to offer e-commerce classes specifically for farmers. "Getting the Most from Your Web Presence" is a three-day short course on using websites, social networking, and e-commerce to connect farm businesses with markets. The course is designed to help farmers develop the right online strategy for their businesses. It includes presentations by small business owners who have incorporated the Internet and e-commerce into their businesses, hands-on group activities, and concrete steps for getting the most from your web presence. Topics include: Internet and d-commerce options relevant to agricultural businesses; customer relationships; attracting and measuring website traffic (including search words and metrics,) and web carts and fulfillment options.

For more information about the Women's Agricultural Network, please visit www.uvm.edu/wagn or email wagn@uvm.edu

Editor's note: See Resources on page 29 for some other WAgN locations

NY FarmNet – A Resource for All Farms

Ed Staehr, Communications Director, NY FarmNet/NY FarmLink

During the mid 1980's, farming was in a state of crisis. Escalating interest rates, low commodity prices, and declining farmland values led to severe stress in the farming community. Lenders foreclosed on numerous farms in the Midwest, and New York State agricultural leaders wanted to be proactive in handling the farm crisis. In response to uncertain agricultural economic conditions, NY FarmNet was established as an 800 helpline to link farm families who were experiencing either personal or financial stress with free, confidential consulting.

NY FarmNet is one of many organizations that have positive impact agriculture in New York State. Our primary method of helping farms, consulting with farm families who are making critical decisions, remains viable. All consultations are confidential and free to farmers within New York State. Accessing NY FarmNet/NY FarmLink is free. We can be reached by calling 1(800) 547-FARM (3276).

When our program began over 20 years ago, most calls were from farmers experiencing significant financial pressures. Needs in the farming community have changed over the years and our programs have evolved to meet such needs. A positive trend is that farmers now contact our office sooner than in the past, which results in a higher success rate of helping farms remain viable. Examples of reasons why farmers call include transfer questions; getting started in farming; farm business and finances; business planning assistance; family communication; and intergenerational conflict.

Being housed in the Department of Applied Economics and Management (AEM) at Cornell University provides a base for an effective educational component of NY FarmNet. We offer training to our consultants and Cornell Cooperative Extension educators on topics pertinent to agricultural viability in New York State. We have produced a plethora of special publications on topics such as farm transfer, business planning, and retirement planning, as well as a strategic planning guide for

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apple farms. Program guidance from AEM Faculty Advisor Wayne Knoblauch is critical when staff develop high quality educational programs and materials.

Collaboration with agricultural organizations is another area where NY FarmNet excels. We work with agribusiness and state agencies to hold training seminars on how NY FarmNet can assist the farming community. Many of our referrals come from agribusiness and other organizations. A recent example of collaboration involved working with USDA's Farm Service Agency to offer individualized training credits to potential borrowers. Farmers benefit by being able to acquire credits at their convenience, as well as having timely access to credit.

We have a network of 50 consultants throughout the state who are available to meet with farmers. Our consultants are either personal/family consultants or financial consultants. Personal/ family consultants work with farmers who are experiencing personal stress, family stress, and/or communication problems. Financial consultants are available to help farmers and their families review and evaluate farm business options. There are times when both types of consultants work together with farm families because financial stress can result in personal or family stress. All consultants have a similar overall goal of helping farmers identify the problem(s), outline possible solutions, and develop a plan that will be implemented.

Before a consultant is assigned to work with a farm family, our office gathers initial information and then contacts an appropriate consultant. The consultant then calls the farm family to arrange an appointment at the farm. Financial issues are a primary reason for farm families to contact the office; however, due to stress, communication issues, etc., almost half of all calls involve a personal consultant.

Working individually with farm families continues to produce excellent program results. Over 97 percent of the farm families we work with are pleased with the services they receive. Moreover, 85 percent of farm families would recommend us to a friend or neighbor. An Eastern NY crop farmer stated, "After I contacted NY FarmNet, they seemed to know what to do and knew the right people to assist us in our farm business transition."

Resources

Financial Crisis and Farms

Establishing and Using a Farm, Financial Record-Keeping System

"Beef Magazine" offers Analysis Tools

Farm Financial Scorecard

SARE Project Database for examples of farm management, e.g. " Tracking Labor for Time and Enterprise Budgeting"

Ag Business Planning: an Agriculture, Fisheries and Small Business planning center at the Center for Farm Financial Management, University of Minnesota

Farm Risk Planning tools, USDA, Risk Management Agency

Center for Farm Financial Management , the University of Minnesota, provides educational programs and software tools for farmers and ranchers. Includes FINPACK, software that guides producers as well as agricultural professionals make sound financial decisions

Ag Risk Education Library, an on-line library at the U Minnesota organizes thousands of risk management materials for producers and agricultural professionals. Information includes: crop budgets for nearly 300 crops and more than 400 livestock enterprises, as well as extensive series of 'cost of production data from 3,500 farms

Alternative Farming Systems Information Center at the USDA National Agricultural Library. One section is devoted to farm business planning and management

The Rural Information Center at the USDA National Agricultural Library. See Sections on Developing a Farm Business Plan and Financial and Planning Resources

The National Sustainable Agriculture Information Service has a section devoted to marketing, business and risk management that includes business planning and risk management -

"INVenture" - a free web-based business planning tool from the Agriculture Innovation and Commercialization Center at Purdue University

The Business Development section of the Agricultural Marketing Resource Center, a partnership of land grant institutions and State Departments of Agriculture, offers fact sheets, analysis tools, videos and other educational materials to help producers create and operate a successful value-added agricultural business

More Resources

The National Farm Extension Income Tax Committee: The tax clinics help producers understand tax provisions important to creating viable farm operations and applying sometimes rapidly changing tax code provisions to their operation. Contact your local Extension office for more information

Beginning Farm Center at Iowa State University offers a wide range of programs and publications

Farm Management section of the University of California, Small Farm Program offers programs and publications

"Dying without a Will in Montana: Who Receives your Property?" by Dr. Marsha Goetting, Montana State University Extension

Marion Simon's Farm Business Planning section, Web-Based Training and Certification Program for Meat Goat Producers, Langston University, OK

Small Farmer Agricultural Leadership Training Institute, Southern University, Louisiana

Annie's Project empowers farm women in over 20 states to be better business partners through networks and by managing and organizing critical information.

The Women's Agricultural Network (WAgN) offers programs in several states in the NE:

- Vermont
- Pennsylvania
- Maine
- Connecticut

Upcoming Events

DATE	EVENT	LOCATION
August 20-21	Agri-Business Development and Risk Management Training Workshop. Contact Dr. Duncan M. Chembezi	Mobile, Alabama
September 15 – 18	Fifth National Small Farm Conference	Springfield, Illinois
October 10 – 13	13th Annual Community Food Security Coalition Conference	Des Moines, Iowa
November 5—7	"Latino/a Communities in the Midwest:" 20th Anniversary Celebration Conference	East Lansing, Michigan
November 10-11	CSREES Grantsmanship Workshops	Kansas City, Missouri
November 18-19	CSREES Grantsmanship Workshops	Washington, DC
November 19-20	7th Annual Community Outreach Conference. Contact Dr. Duncan M. Chembezi	Huntsville, Alabama
December 3-4	Young Farmers Conference: Reviving the Culture of Agriculture	Eastview, New York

See Small Farm website for the most up-to-date listing of events. We welcome submissions of events from our subscribers that would be of interest to the small farms community so that our Upcoming Events listing reflects a diversity of events from all regions of the country. Please send submissions to Patricia McAleer at pmcaleer@csrees.usda.gov; 202-720-2635

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- If you have questions about the Small Farms Digest, or to subscribe or unsubscribe to this newsletter, please contact Patricia McAleer or call (202) 720-2635.