

Virginia Cooperative Extension



Farm Business Management Update June-July 2004

To: Extension Unit Directors, Extension District Directors, Extension Program Directors, and Farm Management Agents, and ANR Specialists

Dear Co-Workers:

Farm Business Management Update is a joint effort of the Agricultural and Applied Economics faculty and the area farm management agents. Subject matter areas include timely information on farm management, marketing, tax management, finance, credit, labor, agricultural law, agri-business, estate planning, 4-H and economic education, natural resources, and CRD. Please use this information in your on-going Extension programs and circulate to all Extension staff. **Farm Business Management Update** is electronically accessible via the Virginia Cooperative Extension World Wide Web site (at <http://www.ext.vt.edu/>). To see the articles listed in the reverse chronological order, select "News," then select "Farm Business Management Update" listed under the heading "Periodicals."

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Facing Change in Agriculture

By [Tom Stanley](#)

Over the past 20 years, each region of Virginia can point to some particular change that has dramatically altered the size and make-up of its agricultural sector. The purpose of this article is to remind us of some fundamental points that farm owners and operators need to keep in mind when market forces suddenly change for the worse.

Southwest and Central Virginia have seen farms impacted by changes in the tobacco industry. Southside Virginia farms have seen drastic changes in how they do business brought about by vertically integrated swine and poultry industries and, more recently, changes to the peanut program. In Northern Virginia, it has been the tremendous pressure of growth from major metropolitan areas. Now, it appears the Shenandoah Valley is going to have its turn.

On April 23, 2004, Pilgrims Pride Incorporated announced its intention to sell or close the Hinton, Virginia turkey complex. At this writing, the hope is still that the Hinton turkey complex may be purchased and kept open under new management.

The complex employs 1,300 people and encompasses the processing plant in Hinton, the feed mill on the northern end of Harrisonburg, and two company owned breeding/hatchery operations. In addition, the complex is supported by some 165 independent contract growers who are an important share of the Shenandoah Valley's family farms. Approximately 75 of these farms are in Rockingham, 42 in Augusta, 16 in Shenandoah, 12 in Highland, 8 in Page, 5 in Rockbridge (please note that these are approximate numbers and are meant only to reflect the relative impact on different localities). The rest of the farms are in the Virginia counties of Warren, Green, Madison, Orange, Louisa, and also in West Virginia.

It is difficult to understate the direct impacts and underlying implications of this event for the Shenandoah Valley. Jim Pease, extension economist in the Department of Agricultural and Applied Economics, estimates that direct economic losses to the region will total at least \$200 million. Wider impacts will be seen on Valley farms. For the past 40 years, the Shenandoah Valley has been a haven for small (less than 150 acres) family farms. These small farms have remained economically viable thanks largely to the presence of the poultry industry in the Shenandoah Valley. Vertically integrated poultry production in the Shenandoah Valley got its start with locally-owned companies that were only recently acquired by larger agri-business conglomerates. Pilgrims Pride is a Texas based firm that purchased the local Wampler-Longacre-Rockingham, Inc. in 2000. Cargill purchased locally owned Rocco, Inc. in the same year. The Valley is also home for divisions of Tyson, Inc. and Perdue Farms, Inc.

Pilgrims Pride plans to keep its broiler chicken complex in the Shenandoah Valley operational. The Cargill Turkey complex, Georges broiler chickens (a division of Cargill), Tyson chickens, and Perdue Farms have all stated their intention to continue operations as normal.

In order for Pilgrims Pride to schedule an October 1, 2004 shut-down, the company began slowing production in May. Many of the Pilgrims Pride turkey growers have seen their last flock. The company's last poults were placed around May 24.

For many of the 165 affected Pilgrims Pride Turkey growers, their poultry houses are their primary source of income. The following list would be a good starting place for any farmer facing sudden and dramatic changes to his/her farm.

1) Avoid quick decisions. When it comes to farm financial matters, quick decisions at a time of market crisis rarely pay-off. An old saying goes "Chance favors the prepared mind." If your farm financial records are kept in order and the management team for your operation is continually assessing the farm's financial position, only then is it likely that your farm is in a position to take advantage of opportunities that demand a quick decision.

2) Be cautious when considering alternative farm or business enterprises. If resources are limited, a difficult situation can be made worse by committing all the reserves to a new enterprise. By definition, most alternative enterprises require new investment and time to learn about a new product or business. Plan carefully and work with a team involving your family and trusted advisors.

3) Have complete, up-to-date financial information. Complete and timely information will allow you to make an informed decision about alternatives. This information will also help prove to creditors that you are working in good faith to maintain or achieve a sound financial position.

4) Do not hesitate to seek help. Spiritual and emotional support can come in many different forms and can be the best kind of help in difficult circumstances.

Managing for Good or Difficult Times?

By [Gordon Groover](#)

Developing the "ultimate" management plan that is filed away or even framed and displayed on the office wall for all to see is a myth. The ultimate plan is not a one time endeavor that will direct the farm's activities for the next 10 years. The ultimate plan is a process of continually thinking through, fine-tuning, and reworking to address changes in the business and family environment to reach long-term business and personal missions. This type of planning trains the manager to quickly formulate strategies or plans that can help address problems or opportunities. Like athletes of equal ability, the one who trains and has a plan for how she will compete will have an edge over her competitors. Planning should be a dynamic process that evolves as individual, family, regional, national, and world events impact the family and business. The events of the last few years (recession, terrorism, war, low and/or very volatile commodity prices...) may have overwhelmed some farm business managers causing them to seek comfort and security in the known activities of production: feeding the cows or getting tractors and equipment ready for spring. This response is understandable, yet some managers see problems as signals to shift out of unprofitable or undesirable activities.

So why should we spend time planning when we cannot anticipate what the real world will dump in our laps the next day? The act of planning prepares us as individuals to understand the steps that are required to confront a problem or an opportunity. The process of planning involves three activities, the same as those for an athlete: 1) mental, 2) fiscal (yes, they too need sponsors or a source of income), and 3) physical (pencil pushing or typing on a computer). Metal training involves general and specific tasks. Managers that are flexible and can adjust to change are well read in their field and keep abreast of trends and changes in the world. To prepare and be knowledgeable of daily challenges, make time to 1) keep abreast of technological change in the your industry, e.g., dairy, beef, grains, fiber, and so forth; 2) understand changing demographics leading to changes in consumer demands for your products; 3) keep up to date on technology changes in equipment and machinery; 4) keep abreast of U.S. and world economic conditions; 5) develop a list or library of management resources to draw on when needed to address a problem or opportunity; and 6) use trustworthy individuals as a sounding board for plans, alternatives, and heads-up on new challenges. These six items will provide the broad base of knowledge and skills to understand where the farm business fits within the agricultural industry, the business climate, and world situation.

Fiscal and Physical – Controlling the fiscal resources and having the physical discipline to manage the resources are the central points in planning for and making sound management decisions. The first and most important step, but maybe the least enjoyable, is the need to be skillful and knowledgeable about recordkeeping. Recordkeeping includes production records (e.g., livestock, DHI, and crop records) as well as a basic knowledge of what information is needed to create cash flow, net worth, and profit and loss statements. The combined analysis of the farm business by comparing your records to benchmark data for similar farms is the basis of fiscal management. You have used your records to document where the farm stands next you need to develop and gain knowledge and skills that will allow you to project the farm's production and financial performance and to compare alternatives. A computer, spreadsheet, and other software tools will be very helpful in "what if" comparisons to understand how your farm business will react in different situations. Managers with limited time to "run the numbers" on multiple scenarios may want to employ an outsider (e.g. extension agent or a paid consultant) with skills to do the fine-tuning of the numbers and alternatives. However, good managers will be familiar with many of the common types of analysis and know how to interpret and critique the results regardless who does the analysis.

What about managing for difficult times? Managing for difficult times is no different than managing for good times. Developing a management plan for an expansion should have multiple scenarios on what strategies to employ if prices decline, if interest rates increase, if feed input costs increase, and so on. Business managers should be planning and asking what if questions or developing strategies to address these questions all the time. ***The most important decisions are not made in difficult times but in the good times.*** I'll repeat this one - the most important decisions are not made in difficult times but in the good times. The decisions one makes in the good times set the stage for the outcome during the difficult times. In most cases, the only decisions you can make in difficult times revolve around cutting costs, selling assets, and restructuring debts – anything that will improve cash flow. Thus, realizing positive cash flow after a few years of breakeven or a shortfall in cash flow is the time to make sure that all

new investments reap the highest returns or benefit to the business. For example, replacing a combine because you expect to have surplus corn to harvest this fall, the dealer is offering zero percent financing, and you can expense the purchase to reduce your tax liabilities may not be a good decision. You should ask what are the alternatives to the purchase and what long-term impact will the decision have on the survivability of the farm business. In simpler terms, can you prove to your spouse or a trusted friend that the business will be better off in five years because of this new investment?

In summary, planning decisions and subsequent investment decisions made when the future is positive may turn out to be the decisions that will severely limit your alternatives in difficult times. Make sure you plan with full knowledge of all downside risks.

Listed below are resources that will prove useful to farm manager making decisions in good and difficult times.

- Financial record keeping
 - Damona Doye's Quicken for farm/ranch financial records
<http://agecon.okstate.edu/quicken/>
 - Make sure your bookmark Damona Doye's Quick Tips Newsletters for up-to-date information on using Quicken for farm record keeping. Read her newsletter at <http://agecon.okstate.edu/quicken/Instructions&Newsletters.htm>.
 - The QuickBooks Farm Accounting Cookbook at <http://www.goflagship.com/products/cbkhome.htm>
- Farm planning and analysis software
 - Intensive Financial Management and Planning Support (IFMAPS) at <http://agecon.okstate.edu/ifmaps/index.htm>
 - FINPACK at <http://www.cffm.umn.edu/Software/FINPACK/>

The Management Calendar

By [Gordon Groover](#)

Well, it is way past the time to have made the first cut of hay, yet it just keeps raining frequently enough to keep folks out of the hay fields. I've seen only one farmer making hay along I-81 or in the New River Valley over the last two weeks. You cannot change the weather, but you can make good use of the downtime and include the following activities on your management calendar during June and July.

- Half the business year will soon be behind you, so a 6-month financial record checkup is in order. Updating your records through the month of June allows you to quickly gauge financial progress by comparing the farm's actual expenses and income to your budgeted amounts. If you did not develop a budget, compare your mid-year expenses and income to half the items reported on your 2001 Schedule F. Flag any items that are different from budgeted amounts. These differences are not necessarily problems, just items that need to be examined and explained.

- Watch your line-of-credit and compare it to previous years, watching for large changes from your past experiences.
- Production records for livestock and crops should be updated for the first half of the year. Look for big changes from last year and make sure to cross-reference these with production expenses.
- Update your marketing plan by collecting information on prices and world market situations. Be sure to check with your local Farm Service Agency for changes in government programs and signup deadlines. Review USDA and other crop and price forecasts. The following web site shows the dates for USDA Agency Reports Calendar release with links to the appropriate agency web sites:
<http://www.usda.gov/news/releases/rptcal/calindex.htm>
- Update estimates of harvest time and yields and develop new plans for possible delays or shortfalls of forages for late harvest.
- You can find up-to-date information on your county's Loan Deficiency Program (LDP) and Posted County Price (PCP) at the following Farm Service Agency web site
<http://www.fsa.usda.gov/dafp/psd/ldp/default.htm>
- Find out what you and other farmers said about agriculture in the 21st century. USDA National Agricultural Statistics Service (NASS) released the full results of 2002 Ag Census June 3. See the NASS web site for all the details
<http://www.nass.usda.gov/census/>. If you want a printed copy or CD you may have to wait a few months.
- The Farm Foundation has started a new publication series (Issue Report) addressing important issues facing agriculture. May's Report addresses "Production Contracts" and April's topic covers "Farmland Preservation." To read these reports go to
<http://www.farmfoundation.org> and click on the link to Issue Report.
- Even with the time constraints of getting ready for hay harvest, plan regular staff meetings with family members and employees to discuss work plans and set priorities for the next day/week. Consider brainstorming about alternative ways to deal with low quality hay.
- Checking your credit rating in July should become an annual event. Independence Day should remind you that you should be independent from identify theft and credit mistakes. All individuals and businesses should annually check their credit ratings. Three main companies track credit and will provide a copy of your credit report for a fee.
- - Equifax Credit Information Services, Inc.
P.O. Box 740241
Atlanta, GA 30374
Phone: (800) 685-1111
Web page: <http://www.equifax.com/>
 - Experian
475 Anton Blvd.
Costa Mesa, CA 92626
Phone: (888) 397 3742
Web page: <http://www.experian.com/>

- TransUnion
P.O. Box 2000
Chester, PA 19022
Phone: (800) 888-4213
Web page: <http://www.transunion.com/>

June-July marks the end of spring and the flurry of summer activities; enjoy!

Virginia Tech to Again Host National Cooperative Youth Conference

By [Dixie Watts Reaves](#)

For the second consecutive year, Virginia Tech will serve as the host site for the youth component of the National Institute on Cooperative Education (NICE). The conference is set to run from August 1st through 4th, and over 100 youth from around the country are expected to participate.

For nearly three-quarters of a century, the National Council of Farmer Cooperatives (NCFC) offered NICE or its predecessor, the American Institute of Cooperation (AIC), as one of its educational conferences on cooperatives. In 2002, NCFC made the decision to streamline its educational opportunities to provide a better return on member investment of both time and money. NCFC will now utilize two national industry-wide meetings each year – the Farmer Cooperatives Convention and the Washington Conference – rather than the three to advance its cooperative education mission.

During the 2002 NICE, the last NCFC-sponsored youth event, a number of state delegations met to express interest in the continuation of the youth component of NICE. A decision was made to host the 2003 Diamond Anniversary NICE on the Virginia Tech campus and to seek to rotate the conference to different university sites in future years. This decision is actually a return to the model of the original AIC when the conference was hosted on university campuses. Since the conference is now focused solely on youth education, the return to the campus setting seems appropriate.

Evaluations of the 2003 conference indicated that it was a success, as 100 percent of participants stated that they would recommend the conference to a friend. Students enjoyed the fun learning environment that was created through the use of numerous hands-on activities. Following the 2003 NICE, themed ***Cooperatives: A Gem of a Deal***, participants decided to return to Virginia Tech for the 2004 conference.

The conference is intended to provide a deeper understanding of cooperatives to the youth participants who are the cooperative members, customers, employees, directors, and leaders of tomorrow. Participants gain an understanding of how cooperatives differ from other business forms and hear cooperative success stories in both the agricultural and non-agricultural sectors. In a team setting, attendees serve as managers of a simulated cooperative store, competing with other stores in their market area for sales and profit. Teams also analyze case studies, develop their own student-run cooperative, and participate in team-building and leadership development

activities. The closing session recognizes the teams that have been the top performers in various conference activities.

Virginia Tech is pleased to host NICE 2004: *Cultivating Tomorrow's Cooperative Leaders*. With the many varied activities, numerous opportunities are available to serve as a sponsor or to provide prizes for winners of different components of the conference. Anyone interested in knowing more about the conference, or interested in assisting in any way, should contact Dixie Watts Reaves at (540) 231-6153 or dixie@vt.edu.

Calendar of Events

June

- 14-16 2004 Triennial Conference Change in Rural America: Social and Management Challenges Reports from the Frontline. Lexington, KY. For information visit the conference web site at <http://www.ca.uky.edu/triennial/> or contact: Gordon Groover at (540) 231-5850 or e-mail him at xgrover@vt.edu.
- 12-16 2004 American Forage and Grassland Council National Meeting. Roanoke, VA. For information visit the conference web site at <http://www.conted.vt.edu/afgc/> or contact Ray Smith at (540) 231-9590 or e-mail him at sasmith8@vt.edu.
- 22-23 State FFA Contest. VA Tech Campus. Contact: John Hillison at (540) 231-8187 or e-mail him at hillison@vt.edu.
- 28 – **July 1** Virginia 4-H Congress. VA Tech Campus. For information visit the 4-H web site at <http://www.ext.vt.edu/resources/4h/congress/> or contact your local Extension office at <http://www.ext.vt.edu/offices/>.