Virginia Cooperative Extension

Farm Business Management Update
February – March 2006

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 (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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Virginia Tech
VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Issued in furtherance of Cooperative Extension work, Virginia Polytechnic Institute and State University, Virginia State University, and the U.S. Department of Agriculture cooperating. Mark McCann, Interim Director, Virginia Cooperative Extension, Virginia Tech, Blacksburg; Alma C. Hobbs, Administrator, 1890 Extension Program, Virginia State, Petersburg.

VIRGINIA STATE UNIVERSITY

Specialty Crops Survey Underway

By Denise Mainville (mainvill@vt.edu), Assistant Professor, Agricultural Marketing, Department of Agricultural and Applied Economics, Virginia Tech

A survey on the production and marketing practices of fruit, vegetable, specialty crop growers, and direct marketers in Virginia is underway. The survey is being administered in collaboration with the Virginia Small Fruit and Specialty Growers Association, with funding from the Virginia Tobacco Indemnification and Economic Revitalization Commission. The survey is an integral part of a research effort to analyze the potential for small fruit and specialty market development as an alternative to tobacco production in Virginia.

The survey will provide valuable insight into the role of fruit, vegetable, specialty crops, and direct marketing in Virginia's economy. The survey can be completed online and is also available in hard copy. For more information, please contact Project Leader Denise Mainville at mainvill@vt.edu or (540) 231-5774.

The Management Calendar

By Gordon Groover (xgrover@vt.edu), Extension Economist, Farm Management, Department of Agricultural and Applied Economics, Virginia Tech

Paperwork – who wants to sit at a desk with pencil in hand when it's warm outside? Long-term, it does pay off by having information to make better decisions and hopefully more dollars for family living. For those who have not started on the paperwork, remember the first day of spring is less than two months away and federal taxes for most farmers are due to the IRS by March 1. Listed below are the items that need to be included on the farm business managers' calendar for the first quarter of 2006.

- Individuals developing their value-added skills can take away two new items from the Ag Marketing Resource Center at Iowa State, 1) Conducting *In-Store Demonstrations* (http://www.extension.iastate.edu/agdm/wholefarm/html/c5-33.html) and 2) *Choosing a Distributor for Your Product* (http://www.extension.iastate.edu/agdm/wholefarm/html/c5-161.html). There are a number of marketing-related studies and resource materials at http://www.agmrc.org/agmrc/; it is worth a bookmark.
- Get the farm's 2005 financial records closed out: Post all income and expenses paid during 2005 in your record book or accounting software. There's still time to conduct an end-of-the-year inventory of all the farm assets and liabilities to provide data for the farm's net worth statement.
- Using your 2005 records, develop an itemized list of income and expenses. The categories found on the IRS Schedule F can serve as a starting point for estimating net income for the farm business. Compare your results to previous years, looking for both weakness and strengths.
- Decide how much you'll contribute to an IRA for 2005 and set goals for contributions in 2006. If you do not have a certified financial planner (CFP), consider their usefulness in helping plan for retirement, college, insurance coverage, and other items. Visit the web

site for the CFP organization to get information on services and standards required for planners. You can also search or a CFP in your area at http://www.cfp.net/.

- Seek assistance from Virginia Cooperative Extension's farm business management agents or your accountant to develop a detailed financial analysis of your farm business, including the 16 major financial ratios. Send me an e-mail message if you want me to send you the recommended 16 financial ratios (xgrover@vt.edu). These ratios and a detailed financial analysis can be generated by using the Center for Farm Financial Management program FINAN. FINAN and other computer programs can be purchased annually for approximately $100 or the whole analysis and planning package of three computer programs for $395. Details at http://www.cffm.umn.edu/Software/FINPACK/.
- Using last year's financial and production records, finalize your projected budgets, cash flow, and income statements for 2006.
- Take your 2005 financial records and 2006 projected whole-farm budgets and cash flow statements to your lender to discuss line-of-credit needs and plans for 2006. Using the FINPACK programs discussed above can help with this process.
- Grain and livestock producers should have their marketing strategies/plan in place for the 2006 marketing year. Be sure to check with your local Farm Service Agency for changes in government programs and signup deadlines. Be sure to visit Purcell's Weekly Agricultural Commodity Market Report for market updates. The report is posted at http://www.ext.vt.edu/news/periodicals/purcell/.
- The end of February and March 15 are the cutoff dates for signing up for most crop insurance polices in Virginia (dates depend on insurance product and where you live). Detailed listings of all policy closing dates are listed at the following site: http://www.rma.usda.gov/data/sales-closing-dates/. Details on crop insurance are best discussed with a local agent. You can locate a local agent by visiting the following web site: http://www3.rma.usda.gov/apps/agents/.
- Make sure your federal taxes are mailed by March 1, unless you pay estimated taxes; then the deadline is April 15. Virginia income tax returns must be postmarked by May 1.
- Prepare your crop and livestock record keeping system for a new year. If you are interested in a listing of agricultural related software packages, go to the following site: http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/econ4118?opendocument.

Well… just get the paperwork done! Ask any Virginia Tech campus or field faculty member; we've all just finished our annual reports. It feels really good to get them done, reflect on our accomplishments, and make plans for the next 12 months.

Hiring the Good Agriculture Employee

By Bill Whittle (wwhittle@vt.edu), Extension Agent, Farm Business Management, Page County

When farmers discuss problems in agriculture, sooner or later labor issues come up. The refrain starts with "How can I find and keep good employees?" and is often followed with "How much should I pay an employee?" Employee compensation is a touchy topic in all industries, but especially in agriculture because the owner is often receiving a less than generous return on his or her investment. From an employee's perspective, the farm work environment can be difficult

– long hours and the work physically demanding. The question, “How do you hire and retain good farm help?” requires separating the two components – hiring and retaining.

The first step in hiring is to determine exactly what you need from an employee. Create a job description after determining the tasks you want your new employee to perform. Are you seeking a manager, skilled or unskilled labor? How much supervision is required for this position? How many hours per week and under what conditions are you asking the person to work? A primary position as milker may require a different skill level than a person feeding the cattle. Also consider additional tasks that a worker may be asked to perform such as a milker that also has responsibility for heat detection or a cow feeder that grinds and mixes all feeds. Consider differences in work conditions – a milker in a state-of-the-art facility would have a more comfortable work environment than a milker in a stanchion barn. Also, consider the added benefits of a routine position. For example, a large catfish farmer once told me that his lowest paid employee, the fish feeder, was probably his most valuable employee because the fish feeder could pick up subtle changes in behavior that foretold a disease problem sooner than anyone else because he saw the fish several times a day. How valuable is this employee to the success of this farm business?

Step two is finding a source of good labor. This is often difficult because many people use farm work to fill in the time between more lucrative jobs. Farm employment is seldom considered a career because advancement, benefits, and security are seldom comparable to other industries, but the best source of a labor pool is referrals. Advertisements can work but you must make sure you have time to adequately interview and research applicants to insure compatibility.

Step three requires that you develop a total compensation package to offer employees. You must sell your open position and the benefits to a potential employee, i.e. an opportunity to work outside in a picturesque environment, along with the more concrete components of the compensation package. “Total” does not mean offering what a factory offers but developing a package that will secure the good employee you seek. There is no easy answer to the question, “What should I pay my employee?” other than, “Enough to keep him happy and willing to work for you.” Your competition for the good employee is not only your farming neighbor but in the new warehouse, factory, or even fast food establishment. Research your competition and determine what they offer and see how your compensation package measures up. Farms may have difficulty competing strictly on dollars so it is time to become innovative to attract the person you need for the job. Compensation packages include everything you provide to the employee including salary, vehicle for personal use, paid sick leave, vacation days, flexible schedules, insurance, retirement program, home, utilities, beef, milk, vegetables, use of equipment to plant and harvest gardens, meals, training, incentives, plus potentially many more components. Imaginative thinking can pay off with satisfied employees.

Hiring a new employee is only the first step in personnel management. However, if you do not attract a good employee, there is probably no reason to think about a retention program. Once you attract the good employee, you can then strive to develop a retention program. Many businesses have found out too late that it is more economical to keep the good people rather than suffering through turnover caused by having the wrong people or not striving hard enough to keep the good ones.

Agriculture Labor Compensation and Retention

By Bill Whittle (wwhittle@vt.edu), Extension Agent, Farm Business Management, Page County

In the previous article, steps to hiring employees for your agriculture operation were discussed. These steps included developing a job description, locating a source of quality labor, and developing a total compensation package that fits the job description and is competitive with your competition for labor. An oversimplification of the entire employee management situation is that as owner/manager you will be happy if you get a good day's work for wages paid, and the employee is happy if he earns good wages for the work provided. Hiring and retaining really comes down to making both sides reasonably happy. It is a process that begins when you meet the prospective employee and continues through hiring, training, and hopefully many years of a sound personnel relationship.

The most visible component of the employee compensation package is salary or wages. Farmers often know the going rate for agriculture employees but are hesitant to hire someone at the "maximum "rate only to see the employee not work out after time and energy have been invested in training. An interesting approach to this dilemma is to use a "Staggered-Reach-Back" wage approach. Once you determine the job description and wage you are willing to pay, a wage program that provides the employee an incentive to learn the job and stay with you through that critical probationary/training period can be developed. The program works like this. A new employee is hired and begins at a lower probationary pay rate and knows that after satisfactorily completing the probationary period he or she will receive a higher predetermined rate. The probationary and the base rate are both negotiated when the employee is offered the position. The explanation is very important! This is not the time for secrecy. An employee needs to understand what is in it for them from the get go.

An example of this "Staggered-Reach-Back" wage approach follows. An employee is hired with a six month probationary period. The final post-probationary wage is set at $9.00/hour. At hiring, the new employee receives $7.50/ hour ($1.50 below the final rate) and designated increases are "Staggered" throughout the probationary period. At the end of one month if both parties are satisfied, wages will be increased $0.25 to $7.75/hour. The wrinkle and the "Reach-Back" portion of the plan is that the employee receives $0.25 for all hours worked during the first month making the effective wage $7.75 for that first month. At the end of month two, if both parties are still satisfied, the hourly wage is increased to $8.00/ hour and $0.25 is added to all hours worked from the date hired making the effective wage now $8.00/ hour. The next four months are handled the same way. If both parties are satisfied, $0.25/hour is added to the wage each month and also to the hours worked from beginning employment date. At the end of the six month probationary/training period the rate becomes $9.00 and $0.25 is paid on all hours worked to that point. If the employee satisfactorily completes the probationary period, he will have realized a wage-rate of $9.00/ hour from his beginning employment date. After this any wage increase would be based on accepted performance evaluations. A program such as this can be modified in several ways to meet your needs. It may not be necessary to "reach-back" to the beginning each time to increase the wage rate or you can make the period longer between any "reach-back" increase. The advantage of this type of program is it defines compensation. If the employee "fits" into the farming operation, he will be compensated for working hard during the probationary/training period. For the employer, it is a hedge against making a bad employment decision. If at any point during the probationary period either the employer or employee is not satisfied, they part ways. Of course the employer is out wages paid if the "fit" is not good or if the employee decides to leave, but he is not out as much.

A compensation plan such as this may help alleviate the rapid turnover that is seen on some farms, but cash wages are not everything. It is vital to realize that personnel management is an ongoing effort. Just as important are the other components of the compensation plan, the job description, and how you, as manager, are able to interact with employees. Very few managers are born knowing how to manage people successfully. It is a learned skill and one that must be continually practiced and updated.

A Post Tobacco Buyout Update

By Dixie Watts Reaves (dixie@vt.edu), Associate Professor, Agribusiness Management and Marketing, Department of Agricultural and Applied Economics, Virginia Tech

During the 2004 growing season, prior to the October announcement of the tobacco buyout, Virginia producers harvested nearly 30,000 acres of tobacco, with the majority (23,000 acres) being flue-cured. Following the buyout, and with marketing moving almost completely to direct contracting with manufacturers, acreage dropped nearly 43 percent to just 17,050 acres. After being the number one cash crop in Virginia for years, often bringing in more than 1.5 times the cash receipts of the second ranked crop, the lower acreage combined with lower average prices led tobacco to drop from the number one spot in 2005.

During the 2005 Virginia Tobacco Growers Conference in Halifax last February, attendees voluntarily completed a survey focused on the tobacco buyout. Ninety-five percent of respondents indicated that they were "glad the tobacco buyout occurred," while the remaining five percent were uncertain. When asked what they planned to do with their year-one buyout funds, nearly a third indicated that they would pay down debt. Almost the same percentage stated that they would invest for retirement. The remainder planned to invest in non-tobacco agricultural production (13%), use it for other expenditures such as education or paying taxes (13%), invest in a non-agricultural business enterprise (3%), invest in tobacco production (3%), and buy a new vehicle (2%).

Survey respondents included both growers and former quota holders. Of those who grew tobacco in 2004, 59 percent stated that they would produce in 2005. Only four percent said they would not produce, with the remaining 37 percent being unsure, even though it was already February. Respondent characteristics are summarized here: 32 percent reported having an off-farm job, while 54 percent had a spouse with an off-farm job. They estimated that 64 percent of their total family income was from the farm and that 55 percent of total family income was from tobacco. The average age of respondents was 53 years (this can be compared to the average age of all Virginia farmers, 57, according to the 2002 census). A follow-up survey is now being planned to determine what growers actually did in the 2005 season.

To begin to get a sense of grower decisions in 2005, a small focus group of tobacco farm families of selected Virginia Tech Agricultural Economics students was conducted. This can be considered a case study of six producers in Southside Virginia. Of the six respondents, four had used some of their tobacco buyout funds to pay down debt. Five had invested for retirement, three had invested in non-tobacco agricultural enterprises and three in a non-agricultural enterprise, and two had used some of the funds for education. One had "bought something for the family." During the 2005 growing season, all six produced less tobacco than they had the previous year. One went out of production completely. Another stopped producing flue-cured and just continued with his dark-fired production. Two of the six tried growing burley for the first time. When asked what elements of their contracts they were satisfied and dissatisfied with, three producers specifically indicated that they were satisfied with the grading, while another said he was satisfied with everything about his contract. Dissatisfaction centered around prices and not getting as many pounds as desired. Going into the 2006 season, three of the producers plan to grow more acreage, in all cases exceeding their acres produced in 2004 (their pre-buyout levels). The grower who exited production does not plan to re-enter, and one grower who produced in 2005 will not do so in 2006. The final producer plans to continue growing dark-fired and no flue-cured. The two producers who experimented with burley in 2005 plan to grow it again in 2006.

While these results are simply a snapshot of a small sample of producers, it is interesting to see the different strategies that were taken in the post-buyout environment. A survey of growers will help to provide additional information on how Virginia producers are faring in the post-buyout world.

Whole-Farm Revenue Insurance Now Available Statewide

By Elaine Lidholm, USDA Risk Management Agency, (804) 786-7686

For the first time, Virginia farmers may apply for whole-farm revenue protection insurance that covers most crops and livestock including specialty products such as fruit, vegetables, nuts, nursery products, flowers, Christmas trees, animals, and animal products (meat, milk, or eggs). A new insurance program called Adjusted Gross Revenue-Lite (AGR-Lite) will be available statewide in Virginia beginning in 2006. Producers who want to enroll in the new program must do so by March 15, 2006.

AGR-Lite makes a form of crop insurance protection available to almost all producers in the Commonwealth and fits farms with up to $2 million of annual gross income. It provides protection against low revenue due to unavoidable natural disasters and market fluctuations that affect income during the insurance year. Most farm-raised crops, animals, and animal products are eligible for protection, excluding forest products. It provides broader insured causes of loss than previous policies on a wider variety of crops, and more producers will be eligible for higher rates of coverage.

AGR-Lite can stand alone or be used in conjunction with other Federal crop insurance plans except Adjusted Gross Revenue (AGR). Producers who purchase both AGR-Lite and other Federal crop insurance will receive reduced premiums on their Lite coverage. To be eligible for

AGR-Lite coverage, a producer must have five consecutive years of IRS Schedule F records (or the same information from other tax forms), have no more than 50 percent of total revenue from commodities purchased for resale, and have no more than 83.35 percent of total revenue from potatoes. Producers must have less than $2,051,282 in approved gross income and $1,000,000 maximum policy liability.

Crop insurance policies are available from private crop insurance agents. Eight companies and nearly 200 agents sell crop insurance in Virginia. Contact the local USDA Farm Service Agency (FSA) office for a list of agents or log on to the Risk Management Agency Web site at http://www3.rma.usda.gov/tools/agents/companies/ or go to www.rma.usda.gov and click on "agent locator."

Calendar of Events

February

7 Producing Cash Hay for Virginia's Equine Industry. Virginia Forage Grassland Council's winter workshop will be held at the Armory in Chatham, Virginia. Registration begins at 8:00 a.m. and the program will end at 3:30 p.m. Contact Chris Teutsch at cteutsch@vt.edu or by phone at (434) 292-5331, Extension 234.

8 Producing Cash Hay for Virginia's Equine Industry. Virginia Forage Grassland Council's winter workshop will be held at the Southern Piedmont Research Station in Blackstone, Virginia. Registration begins at 8:00 a.m. and the program will end at 3:30 p.m. Contact Chris Teutsch at cteutsch@vt.edu or by phone at (434) 292-5331, Extension 234.

9 Producing Cash Hay for Virginia's Equine Industry. Virginia Forage Grassland Council's winter workshop will be held at the Tidewater Research Station in Suffolk, Virginia. Registration begins at 8:00 a.m. and the program will end at 3:30 p.m. Contact Chris Teutsch at cteutsch@vt.edu or by phone at (434) 292-5331, Extension 234.

25 Marketing Opportunities for Farmers Conference. Warren Wilson College; Swannanoa, NC. Registration begins at 7:30 a.m. and concludes at 5:30 p.m. Contact Conference Registrar at (828) 236-1282 or info@BuyAppalachian.org. Online Conference information can be found at www.asapconnections.org.

March

21 Virginia Women in Agriculture Conference. Stonewall Jackson Hotel and Conference Center; Staunton, VA. Contact the Virginia Cooperative Extension Albemarle County Office in Charlottesville at or call (434) 872-4580 or (540) 231-9347 or email dprice@vt.edu.

April

6-7 National Extension Women in Agriculture Education Conference. Sheraton Westport Hotels; St. Louis, MO. Contact Laurie G. Wolinski at lgw@UDel.edu or by phone at (302) 831-2538.