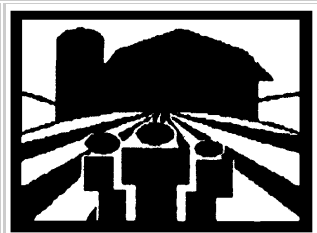


Virginia Cooperative Extension



Farm Business Management Update June – July 2003

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.”

Gordon E. Groover
Extension Economist, Farm Management
and Farm Management Coordinator

Karen Mundy
Rural Economic Analysis Program
Communications Specialist

<u>Item</u>	<u>Page</u>
The Last Word.....	1
2002 Southwest Virginia Farm Custom-Work Rate Guide.....	5
The Management Calendar.....	6
National Agri-Marketing Association Team Finds Success in San Diego.....	8
AgEcon/NAMA Club Auction Raises \$1,300 for Charity	9
Direct Marketing Farm Tour	9
Calendar of Events	11



VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY



VIRGINIA STATE UNIVERSITY

Virginia Cooperative Extension programs and employment are open to all, regardless of race, color, religion, sex, age, veteran status, national origin, disability, or political affiliation. An equal opportunity/affirmative action employer. Issued in furtherance of Cooperative Extension work, Virginia Polytechnic Institute and State University, Virginia State University, and the U.S. Department of Agriculture cooperating. Steven H. Umberger, Director, Virginia Cooperative Extension, Virginia Tech, Blacksburg; Lorenza W. Lyons, Administrator, 1890 Extension Program, Virginia State, Petersburg.

The Last Word

By [David M. Kohl](#)

Powerful and persuasive forces are impacting agriculture and rural communities throughout North America and globally. These same drivers of change are transforming the landscape of agribusinesses and academic institutions serving the industry. Recently, I was invited to address the 75th Anniversary meeting and celebration of the Agricultural and Applied Economics Department at Virginia Tech. The title of my presentation was “Mega Trends in Agriculture: Implications for Academics.”

The trends and visions developed in this discussion rely on observations and anecdotal evidence based on 5 million miles of travel and work with the agribusiness industry over the last 25 years. The discussion is designed to encourage people to think about the future of agriculture and rural communities and the missions of Colleges of Agriculture and Departments of Agricultural Economics across the country.

A strategic planner for the future of agriculture and rural communities must examine the drivers of change. In the next 10 to 20 years, domestic and global consumers of agricultural products will be the central focus. They will expect products, services, information, and education that meet security and safety requirements, convenience, and lifestyle aspirations.

The eight drivers of change include the domestic and global economy; biotechnology; information technology; global competition; government policies; environmental, water, and natural resource management; passporting and traceability; and finally, the uncertainty of a blue sky incident such as 9-11.

The industry and its supporting structures will be faced with an uncertain economy that can range from boom to bust in a short period of time. Deflation, consumption moderation, balance in work and lifestyles, and quality of life will be key words in the market and work place.

The United States is in stage one of the globalization concept. The first industries to experience global competition were the manufacturing and textile mills as more production migrated off shore. Agriculture is currently in the midst of the global pressures. In the next few years the white-collar workforce will be directly experiencing the impact. Pundits would say that the unemployment statistics don't verify this. However, some evidence suggests we are trading one high-paying job for two or three jobs at Wal-Mart pay rates.

Biotechnology and information technology will be tremendous drivers of change. Up to 60 percent of the world's population will accept bio-altered products in the next two decades. Third world countries such as India, China, and African countries will utilize the technology to meet consumer needs at the lowest cost.

On the other hand, the 20 percent of the world's population with 80 percent of the wealth and income will demand and expect food and fiber that meets their safety, convenience, and lifestyle needs produced with environmental stewardship. Traceability, i.e. following the embryo or seed to the plate, will be a requirement, not an option.

Government policies are currently designed to keep producers in agriculture through direct payments. Future farm bills will reflect a voter attitude toward natural resources, conservation, and stewardship. By visiting Europe, one can predict that their programs could be a vision of our future. Finally, any strategic planner must plan for the unexpected. Whether the unexpected is terrorism, weather, war, or natural disaster, consolidated agriculture and clustered urbanization, rather than dispersed rural population, is very vulnerable to terrorist attacks.

Agriculture and Rural Communities

Frequently, I am asked, “Is the family farm dying and are we observing the end of American agriculture?” Agriculture and those servicing the industry are experiencing an evolution based upon the preceding drivers of change. Agriculture is splintering into seven business models, which are difficult to find in USDA statistics or a specific definition of a family farm.

Model One: The Super-Commodity Model

This will be the multiple farm family unit investment. They farm or ranch 10,000 to 50,000 acres, produce up to 100,000 head, and generate \$3 million and above in revenue. They will range from the large greenhouses to hog integrators and dairies on the East and West Coasts to the large grain row crop agribusinesses in the Great Plains and Farm Belt.

Model Two: Traditional Operation

This business is the past image of the family farm. It will generate \$150,000 to \$600,000 in revenue. Economies of scale and profits will be a major challenge. However, the biggest challenge may be whether the son or daughter wants to return to the farm because of the rural community’s lifestyle offerings.

Models Three and Four: Vertically Integrated and Contract Agriculture

These two models are prominent in the Mid-Atlantic, Southeast, and West Coast. They attract younger producers because of parent companies’ technologies, the diversified mix of enterprises, and contracts that offer economic stability. Strategic alliances and negotiated contracts are very important for success.

Model Five: The Lifestylers

The lifestyle producer will encompass approximately 70 percent of producers but will generate less than 10 percent of total farm revenue. Ninety percent of these producers will locate within close proximity of a strong school and hospital system, will have infrastructure that provides ease of transportation and information, will be near a natural amenity and within 45 to 60 minutes of a shopping mall. In the globalized economy, a “reasonable” cost of living will be critical. The goal of these people will be to maximize rural lifestyle within a vibrant rural community.

Models Six and Seven: Emerging Agriculture

Models six and seven are the emerging agricultural segments. Outside the traditional government support belts emerge value-added and earned business models. These individuals exploit a location, production practice or service advantage. Marketing and people skills will be important in a growing natural and organic food market.

The newest player on the block is the agri-entertainer model. They market experiences, such as hunting and fishing or bed and breakfast getaways, and maximize returns by making people feel good in a stressful, technology-driven society.

Agribusinesses are in the process of altering their products and services to meet this changing agricultural landscape. Rural communities that do not possess attributes to meet the needs of the area or region will be destined to a slow demise.

Implications to Colleges of Agriculture and Agricultural Economics Departments

These structural changes will have a dramatic impact on the future of Colleges of Agriculture and Agricultural Economics programs nationwide. Also, the visions of the institutions' leaders and their agendas will alter the rates of change that will occur internally.

One can vision three tiers of Agricultural Economics Departments and, to some extent, Colleges of Agriculture emerging domestically and perhaps globally.

Tier One

These colleges and departments are located in historically strong agricultural regions with historically branded names and reputations. The universities and departments throughout the colleges will be driven by the institution's desires to be top research universities. In strong agricultural areas, some agricultural economics departments will form alliances with the business school at their universities and focus on agribusiness. Others in less prominent agricultural regions will focus on natural resources or international agriculture with an economic slant.

Lecturers and adjuncts will conduct teaching at the undergraduate level, while professors with research agendas will focus on graduate education and grants and publications because of the reward and tenure structure.

These Tier One departments, approximately 20 in number, will be predominantly in the Big Ten or Big Twelve athletic conferences. The remaining will be scattered along the East and West Coasts.

Research will be the agenda at these schools because branding and reputation will attract top-level scholars just out of graduate school. Some academic stars from Tier Two and Tier Three schools will be heavily recruited. These schools will become more like farm clubs in minor league baseball. Publication in high-level journals will be rewarded and extension and outreach will be emphasized toward government and high-level agribusinesses rather than at the producer

level. Top-level scholars will be measured by their ability to publish and succeed in dialing for research dollars.

Tier Three

At the opposite end of the spectrum the Tier Three institutions will emerge. They will be regional by nature, entrepreneurial, fast, and flexible. They will forge strong alliances with local or regional agribusinesses and producers.

Emphasis will be toward undergraduate education with an applied technical focus. These institutions will have an outreach rather than extension focus and will be driven by small grants and research projects. An academic at these institutions will be rewarded by innovative teaching and outreach activities, articles in trade publications and applied research. Schools in Tennessee, Arkansas, California, Wisconsin, and Minnesota are emerging as strong players serving the agriculture and rural communities.

Tier Two

These colleges and departments, like the traditional family farm, are in the Bermuda Triangle of agriculture and academics. They are struggling to redefine themselves. Like the traditional producers, the tenured academicians struggle with change and new agendas. They often lose outstanding faculty and graduate students to higher profile Tier One schools or, in some cases, Tier Three schools where lifestyle objectives are the faculty members' priority.

Many of these departments will be encouraged to merge with other units at the university, such as Economics or the Business School. Within a decade, the faculty who have stressed undergraduate education, extension, and applied research will disappear through retirement or tenure/promotion criteria that encourage higher level research and publication. The results will be that potential students will go to Tier Three or Tier One institutions and alumni who have supported these departments and colleges will become more disconnected over time. Extension in Tier Two schools will become non-existent from the specialist to the agent, driven by less support from state and local governments.

The Evolution

This evolution will take place in two rounds over the next decade. Round one has already occurred in many of the New England schools and is beginning in southern and some western schools. Round two could possibly threaten the remaining departments later in the decade and eventually some of the Tier One schools, depending upon global events.

This article is intended to provoke thought, whether you are a producer, agribusiness person, government worker, or an academician. Like the book, *Megatrends*, written by John Naisbett, it is not backed up by statistics and economic models but by front line observations and is designed to trigger critical thinking about the future of our institutions and industries.

Epilogue

Side Note

This will be my last article in this newsletter as my retirement comes July 1. Here are 10 trends I see that will be fun to observe as I rewind to new career aspirations.

- More women will be in management and leadership positions in agriculture in the next decade.
- On-line education will supplement the traditional classroom – “high tech, high touch.”
- Vocational and technical education will become as important as a 4-year degree as we move to more globalization challenges in the white-collar sector.
- National and international internship programs will be encouraged by agribusinesses, producers, and coordinated by retired academicians.
- Young people demanding a balance between work and lifestyle will turn business and academic models upside down.
- The breakup of the consolidation of agriculture will occur through entrepreneurial alliances and activities.
- Satellite cities outside major metropolitan areas will grow as cost of living becomes an important part of the family budget stressed by global economics.
- Time, not money, will be the precious commodity.
- Emotional intelligence or “people skills” versus intellectual intelligence will be rewarded.
- China will emerge as a super world economic power to compete against USA status.

Editor’s note: Dave Kohl has been a faithful contributor to the Farm Business Management Update since February of 1994, just 2 years after the first issue. His insights and understanding of management have been appreciated and will be missed by all. Thanks Dave!

2002 Southwest Virginia Farm Custom-Work Rate Guide

By [Tom Covey](#) and [Daniel Osborne](#)

In December 2002, over 5,400 custom-work rate surveys were sent out to farmers and custom operators in Southwest Virginia. Responses were received from the following counties: Alleghany, Bedford, Bland, Carroll, Craig, Dickenson, Floyd, Giles, Grayson, Lee, Montgomery, Patrick, Pulaski, Roanoke, Russell, Scott, Smyth, Tazewell, Washington, Wise, and Wythe. The Farm Business Management Agents in the Southwest Extension District reviewed the survey results and summarized the completed surveys. In addition, all custom jobs surveyed with less than ten responses are not reported in this guide. The results reported in Table 1 are not intended to set custom-work rates, but rather to serve as a guide from which to begin negotiations. For more information on farm custom-work, contact your local Farm Business Management Extension Agent.

Table 1: Custom rates reported in Southwest VA			COST PER UNIT		
Custom Job	Unit	No.	Average	High	Low
Mowing	Acre	18	14.67	50.00	5.00
Mowing	Hour	27	22.48	35.00	15.00
Mowing/Conditioning	Acre	12	17.83	50.00	7.00
Mowing/Conditioning	Hour	21	28.57	60.00	15.00
Tedding	Hour	17	22.65	40.00	15.00
Raking	Acre	13	9.31	20.00	5.00
Raking	Hour	19	23.68	40.00	15.00
Square Bailing	Bale	20	0.77	3.00	0.25
Square Cut, Rake, Bale, etc.	Bale	19	1.29	2.50	0.45
Round Bale < 1000#	Bale	53	6.38	20.00	2.00
Round Bale 1100-1600	Bale	15	8.30	16.00	5.00
Round Bale > 1600#	Bale	10	10.45	20.00	7.00
Brush Hogging	Acre	19	22.84	50.00	8.00
Brush Hogging	Hour	34	28.82	65.00	15.00
Clipping	Acre	12	22.33	60.00	8.00
Clipping	Hour	22	22.95	45.00	15.00
Moldboard Plowing	Hour	12	24.83	40.00	15.00
General Pesticide Application	Acre	14	11.22	25.60	3.00
Post Driving	Post	24	1.42	4.00	0.30
Post Driving	Hour	12	26.42	50.00	15.00
Post Drilling	Post	13	1.32	5.00	0.30
Two-ton Truck	Mile	12	1.78	4.00	1.00
Goose-Neck	Mile	52	1.61	4.00	0.25
Bulldozer	Hour	38	55.92	85.00	40.00
Backhoe	Hour	33	47.91	75.00	35.00

The Management Calendar

By [Gordon Groover](#)

Well, where's summer? Last year we were heading into a drought and now we're wondering if land will dry enough to get corn planted and make the first cut of hay before the fourth of July. If you are not convinced that last year's drought is gone from the Eastern U.S. take a look at the NOAA Drought Monitor Forecasts web site

http://www.cpc.ncep.noaa.gov/products/expert_assessment/seasonal_drought.html.

Since you cannot change the weather, you can make good use of the downtime from wet fields to the following activities on your management calendar for June-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.
- I often get questions about cow-calf record keeping software. Oklahoma State has a publication listing many of the important features and requirements of the major software packages. The publication *Cow-Calf Production Record Software* WR-3279 can be found at the following site:
<http://www.ansi.okstate.edu/exten/beef/WCR-3279/WCR-3279.pdf>
- 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>
- Even with the wet conditions, begin to 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/daftp/psd/ldp/default.htm>
- Even with the time constraints of spring planting and 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 the soggy conditions and what might be alternatives to planting and harvesting times that have slipped beyond your comfort point.
- If you are considering direct marketing using the internet, take a look at USDA Agricultural Marketing Service's publication *How to Direct Market Farm Products on the Internet* at the following URL:
<http://www.ams.usda.gov/directmarketing/internet%20marketingf.pdf> and take a look at other AMS resources at this URL:
<http://www.ams.usda.gov/directmarketing/publications.htm>
- Check your credit rating in July and make this 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 and verify all information in their credit report. There are 3 main companies that 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: 1-800-685-1111
Web page: <http://www.equifax.com/>
- Experian
475 Anton Blvd.
Costa Mesa, CA 92626
Phone: 1-888 397 3742
Web page: <http://www.experian.com/>
- TransUnion
Post Office 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!

National Agri-Marketing Association Team Finds Success in San Diego

By [Dixie Watts Reaves](#)

The Virginia Tech student National Agri-Marketing Association (NAMA) team recently placed third in competition in San Diego, California, among 35 teams from the United States and Canada. The NAMA competition includes both a written and oral marketing plan, completed for an agricultural product or service of the team's choice. The Virginia Tech team began working last October to create a plan for the marketing of live tilapia, a warm freshwater fish, in emerging upscale grocery stores in the Washington, DC, metro area. In consultation with aquaculture specialist, Dr. Dan Kauffman, the six-member student team conducted primary and secondary market research, including on-site customer surveys in two DC area stores and a tour of tilapia production facilities; developed goals and objectives for a three-year roll-out; set pricing and promotional strategies; estimated three-year financial projections; and determined a strategy for monitoring and measuring the success of the plan.

While in San Diego, the Virginia Tech team had the opportunity to present its plan three times. The team was one of two to advance from its initial heat of six teams to the semi-final round of twelve competitors. Virginia Tech was then the one school from its heat in the semifinal round to advance to the Final Four. They were announced as the third place team, finishing behind the University of Guelph and the University of Wisconsin-Madison. In addition to placing third in the continent in the NAMA competition, the team also won the Innovative Fundraising Award.

Team members were John Dillard, Amelia, Va.; Julia Gardner, Bridgewater, Va.; Thomas Henley, Walkerton, Va.; Austin Lineberry, Fries, Va.; Carrie Rodgers, Slippery Rock, Pa.; and Lance Stenzel, Forest, Va. The team was advised by Dr. Dixie Watts Reaves.

Past years' teams have conducted marketing plans for Blue Ridge Premium Beef, Graves Mountain Jams and Jellies, and Ruby Rainbow Trout. Any business that would like for the NAMA team to consider its product or service for next year's competition should contact Dixie Reaves at dixie@vt.edu.

AgEcon/NAMA Club Auction Raises \$1,300 for Charity

By [Dixie Watts Reaves](#)

The AgEcon/NAMA Club held its annual auction in March with all proceeds going to the American Cancer Society's Relay for Life. The Club's contribution, in excess of \$1,300, was turned in during the annual Relay for Life walk, held on the Virginia Tech campus for the second year.

Auction co-chairs, Jessica Hynson and Evan Johnson, led a group of students who collected donations from area businesses and from friends and family members in their hometowns. The silent and live auctions featured gift certificates, handmade crafts, jewelry, clothing items, and labor hours. One of the top-selling items was a football signed by Virginia Tech's coaching staff.

Each year, the Club accepts nominations for groups or causes that the auction proceeds will support. Following discussion on all nominations, the Club membership votes to decide where its donation will go. Anyone that would like to suggest a cause for next year's auction, or anyone who would like to donate items to the auction, can contact Club advisor, Dixie Watts Reaves at dixie@vt.edu.

Direct Marketing Farm Tour

By [Cathy Belcher](#)

Thanks to FDMA board members, Jackie Hott and Kitty Nicholas, there will be a farm tour this summer. On August 2, tour participants will meet at the Travelodge in Winchester. Tour buses will depart at 9:00 AM to visit five local farm markets, each offering its own flare and adventure. The tour also includes a progressive-style lunch.

The Winchester City Market in historic downtown Winchester will be the first stop. Then it's off to Virginia Farm Market, a full-service market located right on Route 522 featuring locally grown and produced products. The next stop is Hedgebrook Farm, where owners Jackie Hott and Kitty Nicholas will serve fresh-from-the-garden appetizers and talk about their farm activities and their new farm vacation home. Richard's Fruit Market will host lunch and share information about the many festivals they hold throughout the season. Dessert will be served at Marker-Miller Orchards. John Marker, who recently joined the FDMA board of directors, will give a tour of his new on-farm market. So mark your calendar for Saturday, August 2, 2003 from 9:00 AM - 4:00 PM. This is going to be an exciting and educational tour with plenty of time for asking questions and networking. The cost is just \$38 per person, which includes the progressive lunch.

If you want to attend, fill out the form below and send it with your check, made payable to FDMA, to: Cathy Belcher, VDACS, 1100 Bank Street, Richmond, VA 23219.

Name(s) _____

Farm/Market _____

Address _____

City _____ State _____ ZIP _____

No. Attending _____ @ \$38 each = \$ _____

Reprinted from the Virginia Farmers Direct Marketing Association Spring 2003, newsletter
Direct Marketing News.

Calendar of Events

June

- 17-20 State 4-H Congress. Virginia Tech campus, Blacksburg. Contact: Robert Ray Meadows at (540) 231-6371 or e-mail: bmeadows@vt.edu
- 19-21 Rural and Agri-Tourism Conference. Shepherdstown, WV. Contact: Potomac Heritage Partnership at (202) 333-4478 or visit their web site at www.potomacheritage.org.

July

- 27-30 Diamond Anniversary National Institute on Cooperative Education, Youth Leadership Conference. Virginia Tech Campus, Blacksburg, VA. Contact: Dixie Reaves at (540) 231- 6153 or e-mail: dixie@vt.edu

August

- 2 Virginia Farmers Direct Marketing Association Tour. Winchester area. Contact: Cathy Belcher at (804) 786-4046 cbelcher@vdacs.state.va.us.
- 6 Virginia Food Festival. Richmond Raceway Complex, Richmond, VA. Contact: Brenda B. Wilkinson at (804) 643-3555

September

- 4-6 Farm & Family Showcase. Virginia Tech's Kentland Farm. Contact: Dwight Paulette at (540) 731-1289, e-mail: kentland@vt.edu, or visit www.farmandfamily.vt.edu