

# Virginia Cooperative Extension



## Farm Business Management Update April – May 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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## **Selling the Farm to Save the Business?**

By [Keith Dickinson](mailto:keith.dickinson@vt.edu), ([keith.dickinson@vt.edu](mailto:keith.dickinson@vt.edu)), Extension Agent, Farm Business Management, Northern District

If you talk to nearly anyone in the farming communities in the northern half of Virginia, an issue that you are likely to hear discussed before long will be “growth.” Communities that were once very remote and rural are quickly finding themselves closer and closer to the edge of urban and suburban regions. The housing boom of the past several years, fueled by steady job growth in northern Virginia and surrounding areas have led to a strong demand for new housing and commercial development. In the areas further out from the primary growth areas, demand for single family homes and country estates is increasing as folks from more urban environments look to escape to the country as they approach retirement. As these changes to the rural communities occur, these communities are certainly impacted and finding a resident who does not have some sort of opinion on the subject is difficult.

As land development in rural communities changes from agricultural uses to housing, commercial or other non-farming uses, the impacts on the agricultural industry can be significant. When residential populations increase, farmers find more traffic on roads, which can lead to frustrating and even dangerous conditions when moving farm equipment from one field to another. New residents to the changing communities often are not accustomed to the smells, sights, and common practices necessary to support a thriving agricultural community. At the least, farm operators view these residents as a nuisance to conducting their normal farming operations. At the worst, the new residents can put pressure on local governments to enact public policies which can be detrimental to the viability of an agricultural business, such as a repeal or revision of Use-Value taxation.

Beyond the annoyance or nuisance issues created for an agricultural industry by increased urban pressure, the economic impacts on the industry can be considerable. Residential and commercial development nearly always replaces agricultural development. An open farm field is not undeveloped land. That field, when part of a farming operation, has been developed for agricultural use through the management of a farmer. An increase in the level of commercial and residential development in a community nearly always means that the level of agricultural development is decreasing, and, therefore, that industry is in decline within that community.

When the number of viable farming operations decreases in a community, the portion of the agricultural industry which supports the farming operations also must decrease or adapt to the changes in the community. The result is that farm equipment dealers will change their focus to lawn and garden and small “estate” equipment sales rather than the sale and support of large farm equipment. Feed and fertilizer dealers will shift focus from supporting large farms to supporting small scale agriculture. The availability of custom farm services will decline as the number of farms in an area decreases. As the businesses that help support farming businesses decrease their availability and service to farms in a community, the remaining farms must go further and pay more for these services.

Many agricultural producers find themselves facing difficult decisions about the future of their farming operation as the communities around them grow. Some will see the growing community

as an opportunity to diversify their farming operations into producing crops, products, and services that can be marketed direct to the consumer at a higher value, such as nursery crops, fresh produce, value-added products, and agri-tourism enterprises. Unfortunately, these opportunities generally are few in number and require a management skill set that many producers do not possess, or the producer simply does not want to move into these areas of production. Many more producers are faced with the difficult question of “Should I stay, or should I go?”

The decision to sell the family farm in the face of urban pressure can be a very emotional and stressful one. Sentimental ties to the land that the family has farmed for generations can run very deep. Often the attitude sets in to the farm owner that the farmland must be preserved at all costs. While this approach will certainly preserve the sense of heritage and ties to the family farm, it may not always lead to the desired results of keeping the family farm intact. As the aforementioned economic stresses take their toll on the farm business, its viability can suffer, and the owner may eventually be forced to sell as a means to avoid bankruptcy or, even worse yet, as a result of bankruptcy. During the long downward spiral towards bankruptcy, a farm owner can endure many stresses, including depression and a sense of failure, because he or she could not find a way to make the business survive.

Another option for farm owners is to consider the other business opportunities presented by the encroachment of urban pressure on their community. As property values rise, farmland become more valuable for non-farming uses than for farming uses. In some cases, the best business decision for a farm business in the face of intense urban pressure may be relocation. In nearly every industry, relocation of factories, retail outlets, and other infrastructure is common as the local and even national economies change. If a farm is being managed as a business and not as a family heirloom, relocation should be considered as an option for maintaining the farm business' long-term viability.

As a farm owner considers options for maintaining the future viability of the farm business, many issues must be considered. Family interests are certainly an important consideration to any family-held business. A balance between family interests and the interests of the business must be achieved to maintain the sustainability of both. Furthermore, just as each family has its own unique quirks and qualities, individual farm businesses have unique strengths and weaknesses that must be evaluated to determine the best options for maintaining a profitable operation. Virginia Cooperative Extension can assist farm managers to work through these issues and find the best options for that farm business. Finally, farm owners in the 21<sup>st</sup> Century must be forward thinking and looking for changes in their industry as they happen in order to survive. For those owners on the fringe of urbanizing areas, the time to begin discussing their options is today.

## **The Management Calendar**

By [Gordon Groover](mailto:xgrover@vt.edu), ([xgrover@vt.edu](mailto:xgrover@vt.edu)), Extension Economist, Farm Management,  
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The price of energy has a tremendous impact on the overall profitability of farm business, e.g., price of diesel fuel, fertilizers, pesticides, transportation, and so on. Kevin Dhuyvetter (Professor

and Extension Specialist, Farm Management, Kansas State University) has followed the trends in energy and their effects on agriculture and has regular post and articles on “Energy Prices” a web site found at <http://www.agmanager.info/energy/>. To get monthly updates on projection for anhydrous ammonia and diesel fuel prices take a look at his article *Futures-Based Price Forecasts for Anhydrous Ammonia and Diesel Fuel* found at <http://www.agmanager.info/energy/PriceForecasts.pdf>.

Once again talk has turned to drought. National Oceanic & Atmospheric Administration (NOAA) in Blacksburg reports that March 2006 was the driest on record. To view details about current conditions and short and long term forecast in the U.S. visit the *Drought Monitor* at <http://drought.unl.edu/dm/>.

Farm financial records continue to play an important role in day-to-day management of a farm business. Farmers just getting started with computer applications should consider starting with a software package that will allow them to begin to see results for their efforts quickly and reduce the frustration of first having to learn the details of accounting. Consider Quicken® as an inexpensive product that has many instructional packages available on the web. Damona Doye Extension Economist and Professor at Oklahoman State has an excellent web site devoted to Quicken® for farm and ranch applications. It can be found at <http://agecon.okstate.edu/quicken/Instructions.htm>

*Farm Record Book: Expenses and Receipts*, Virginia Cooperative Extension Publication 446-017, will go to the print shop for printing sometime the first week on April. The order form Publication 446-016 will be sent to all extension offices and individuals on our waiting list as soon as the details are known about the pricing. Thanks for your patience.

Want to know the long-term outlook for the U.S. dairy industry and the forces that will shape its competitiveness in the world market place? Then take a look at *U.S. Dairy at a New Crossroads in a Global Setting*, by Don P. Blayney and Mark J. Gehlhar, Economists at USDA-ERS. The article can be found in the November 2005 issue of *AmberWaves* at <http://www.ers.usda.gov/AmberWaves/November05/Features/USDairy.htm>

Listed below are the items that need to be included on the farm business managers' calendar for spring of 2006.

- Make sure your Virginia state income taxes are post marked by May 1.
- Review first quarter livestock records and compare them to last year's; look for problems and successes.
- Follow-up with your lender to review and update your line-of-credit needs.
- Prepare crop record keeping system for a new year. If you do not have a crop record keeping system, consider purchasing the Doane's hand-kept crop and machinery notebook, “Field and Equipment Record Book.” This notebook provides an inexpensive way of getting started. It can be ordered via the Internet at <http://www.doanebookstore.com/shop.php?category=9> or by (800) 535-2342, Extension 220. The price is less than \$20.00. For a selection of computerized crop record keeping

software, take a look at the Agricultural Software Directory from Alberta Agricultural Food and Rural Development site:

[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/econ4118?opendocument](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/econ4118?opendocument).

- 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. All USDA reports are listed on the internet and can be viewed by going to [Agency Reports](#) on the USDA newsroom page.
- Value-added business managers who must promote their products and/or services and who require skills in developing written materials, ads, web pages and so on should check out Christa Hartsook, communication specialist, Agricultural Marketing Resource Center, Iowa State. Her website has an article that discusses many of these. See *Writing Materials for Promotion* at <http://www.extension.iastate.edu/agdm/wholefarm/html/c5-131.html>

## **New Publication from Sustainable Agriculture Research and Education (SARE) Program**

*How to Direct Market Your Beef* is a new publication from SARE and can be found at <http://www.sare.org/publications/beef.htm>. “*How to Direct Market Your Beef* is 96 pages in length, was published in 2005, and can be ordered online for \$14.95.

## **Calendar of Events**

### **April**

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| 6-7 | National Extension Women in Agriculture Education Conference. Sheraton Westport Hotels; St. Louis, Missouri. Contact Laurie G. Wolinski at <a href="mailto:lgw@UDel.edu">lgw@UDel.edu</a> or by phone at (302) 831-2538. |
| 11  | Agriculture and Horticulture Legal, Labor, and Risk Management Conference. Graves Mountain Lodge; Syria, Virginia. Contact the Culpeper Extension Office at (540) 727-3435, Extension 0.                                 |