

Virginia Cooperative Extension



Farm Business Management Update June-July 2010

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 feel free to reproduce any article. However, please cite the title, author(s), date, and this Newsletter.

Farm Business Management Update is electronically accessible via the Virginia Cooperative Extension World Wide Web site (<http://pubs.ext.vt.edu/news/farm-business-management-update.html>). 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

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June 30th Virginia Cooperative Extension will Retire 75 Years of Experience in Farm Management and Marketing

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

June 30, 2010 marks a time when we will say goodbye to three stalwarts in the farm business management program. Eric Eberly, Mike Roberts, and Bill Whittle will all leave their current positions as farm business management extension agents. They have all made major contributions in support of Virginia agriculture. I have relied on them, and they have willingly met the programmatic needs of our clients. As resources have declined for educational programs they have provided programmatic leadership, established subject matter expertise, and obtained grant funds to meet the needs of Virginia's agricultural industries. It has been a pleasure to work side-by-side with them over their long careers.

Eric Eberly, currently housed at the Southern Piedmont AREC, started as a farm business management extension agent in 1980 and has worked in the Virginia's Southern Piedmont his whole career. Eric has always been the go-to-person on farm taxes, tobacco costs of production, computerized farm records, and enterprise budgets. Since 1993 he has taken the lead in developing a standard format for the 150 plus crop, livestock, and vegetable budgets. These are the cornerstone of many business management programs in Virginia and around the Southern region. Farmers and educators from around the U.S. use these budgets on a daily basis. Eric has worked tirelessly to develop tools and analysis that farmers can use on a daily basis and he is thorough in his analysis. If I needed a spreadsheet reviewed for accuracy, Eric was my first choice. Southside Virginia has benefited from Eric's understanding of what it takes to make an enterprise profitable. Eric plans to take the summer off and then return on project funds to support the Use Value Taxation program by keeping our enterprise budgets up-to-date. I look forward to his continued support.

Mike Roberts currently working out of the Prince George Extension Office started as a farm business management extension agent in 1997. Mike has been instrumental in seeking out grant funds to support extension programming and use of technology to complement statewide programming. Mike jumped in and took over education programming for commodity marketing and outlook after the retirements of Dr's Kenyon and Purcell. He volunteered to pick up the task of weekly writing and publishing the commodity marketing newsletter and retained a vast audience. Mike put video conferencing technology to use in getting experts from around the U.S., France, and Brazil to conduct interactive outlook updates for Virginia farmers and agribusinesses. This was achieved via partnering with the Virginia Community College System and Virginia Department of Transportation to provide the technology backbone to reach audiences across Virginia and the world. Mike will start a new extension career as an Extension Associate for Dairy Programs in the Agricultural and Resource Economics Department at North Carolina State University. This position will provide a new challenge and get him closer to his grandchildren. Good luck in the new job, Grandpa Roberts!

Bill Whittle is currently working out of the Page County Extension Office. He started his extension career as a farm business management extension agent in South Carolina and later in Virginia in both Bedford and Page Counties. In 1996 he joined the Farm Business Management

staff of Virginia Cooperative Extension. Bill has consistently placed the needs of Virginia's farmers at the forefront of his educational programs. He has been instrumental in the development of the Dairy Management Institute, leasing and custom rate surveys used by farmers throughout the Valley and the rest of Virginia as a one-of-a-kind information source. Most importantly he has been the driving force behind educational programming in farm transition planning. Bill helped obtain grant funds, provided leadership, led training for numerous agents to insure the success of the farm transition program. The folks in the Valley have had a tireless public servant working side-by-side as they have faced some of the best and worst economic conditions of their lifetime. I am also very grateful for his passion to get me at least six articles a year for publication in this newsletter. Bill will begin his retirement in July. He tells me that he might take up fly fishing, sit and think for awhile, hike the Appalachian Trail, and/or something else. He plans to start the strategic planning process after June 30.

Thanks to all of you for your excellent work, help, and friendship. Best of luck in the next phase of your lives.

Former Agricultural and Applied Economics Department Head Dies at 75

Herbert Horst Stöevener, 75, of Blacksburg, Virginia, passed away on Monday, May 10, 2010, at his home in Blacksburg. Dr. Stöevener is survived by his son, Ralph Gregory Stöevener, of Platteville, Colorado; his daughter, Karen Annette Stöevener, of Blacksburg; his sister, Leni Alt, of Goslar, Germany; three granddaughters, Cassie Anne Stöevener, Morgan Leigh Stöevener, Kersten Leni Stöevener; and one great grandchild, Ryan L. Stöevener-Lucas.

Herb Stöevener came to Virginia Tech in 1980 as department head. In 1991 he assumed the position of Special Assistant to the Provost for International Programs. Professor Stöevener conducted research in natural resource economics focusing primarily on issues in environmental management, the measurement of publicly provided recreational benefits, and the economics of land use policy. He taught graduate and undergraduate courses in these subjects and in the theory of welfare economics. Professor Stöevener was a Fellow of the American Agricultural Economics Association. He received the 1973 AAEA award for Published Research, in 1977 the AAEA award for Quality of Research Discovery, and the 1982 AAEA award for Quality of Communication.

Making Hay on Shares: What is a Fair Division of the Crop?

Tom Stanley (stanleyt@vt.edu) Extension Agent, Farm Business Management, Northern District

Hay making is at its peak as this newsletter goes out and many Virginia farmers are contending with the annual ritual of monitoring weather forecasts, making hay, and rushing to get bales removed from the fields. While many folks choose to keep their own equipment and deal with the challenges and benefits of making their own hay, others look to their neighbors to provide the equipment and labor to get a hay crop made.

Often, the question arises: What is a fair division of the hay crop? This article attempts to identify the primary costs of producing the hay and thus illustrate how two parties can arrive at their own equitable share agreement.

The orchardgrass and red clover hay budget featured in this article can be found at: <http://pubs.ext.vt.edu/category/enterprise-budgets.html>. It is representative of several hay budgets available from Virginia Cooperative Extension. The table below summarizes the itemized costs featured in the detailed hay budget. The blank column provides the opportunity for the reader to insert their own cost assignments to arrive at an appropriate crop share arrangement.

Orchardgrass / Red Clover Hay (costs on a per acre basis)

Expense Item	Cost (per acre)	Landowner	Hay Maker	Your Landowner Estimates	Your Hay Maker Estimates
Seed and Establishment ¹	\$43.39	√			
Fertilizer	\$169.01		√		
Lime	\$10.73	√			
Chemicals	\$0.00		√		
Land Ownership Costs ²	\$26.90	√			
Harvest Variable Expense ³	\$57.73		√		
Harvest Fixed Expense ³	\$36.46		√		
Total Cost	\$344.22	\$81.02	\$263.20		
% Share		24.00%	76.00%		
¹ Assumes improved stand with a 7-year life. ² Land Ownership Costs per acre here are: Opportunity Cost of foregoing land rent = \$18, Taxes under land use assessment & Insurance = \$4, Interest expense at 4% for 6 months = \$4.90. ³ Equipment Expenses assume fuel costs at \$2.50 / gallon, new equipment with a life of 8 – 10 years for hay implements and 12 – 16 years for tractors and harvesting over 350 acres of hay annually.					

It is essential to note that this table represents just one of many ways the costs of hay production can be shared and it is not intended as a recommendation. In my years of work, I encountered a common hay-share among many farmers where the landowner receives one third of the hay crop and two thirds to the hay-maker. This division is coming into question as expenses for fertilizer, fuel, and equipment parts and maintenance have significant increases.

The key point is that hay production represents a significant expense to the livestock or dairy producer. Crop sharing can be an excellent means by which resources are shared and efficiencies are gained. An examination of itemized costs can insure fair treatment of both parties and success for both farming operations.

My Top 11 Pitfalls in Farming

Bill Whittle (wwhittle@vt.edu), Extension Agent, Farm Business Management, Northern District

Over my years in Extension as a farm business management agent I have witnessed many successful and some unsuccessful Valley farming operations. Taking a page from late night talk shows I am going to give you my Top 11 management pitfalls. Except for the first, these are in no particular order but you should notice rather quickly that each pitfall is entwined with the others.

1. Not knowing your Cost of Production: COP, or what it costs you to produce one unit is the lynchpin for profit. Every management decision must be weighed against how it affects your COP. Too few farmers know their cost of production and if you do not know your COP, can you truly be considered in the business of farming?
2. No plan for transferring the farm to the next generation: Life happens, but without adequate planning and preparation it may not happen the way you desire. Transitioning the farm is a long-term, on-going and arduous process encompassing every segment of the farm and family. You need to start early, involve everyone, and modify as life provides changes.
3. Inadequate financial recordkeeping: If you keep your financial records only for tax preparation, Uncle Sam appreciates your efforts but you have given up a management tool for determining COP and making profitable decisions. Without adequate records for making decisions your outcomes are based on guesses and wishes.
4. Lack of a clearly defined business plan: Farmers are great at planning day-to-day production activities but long-term plans get lost in the every day work. Planting the crop, breeding the cow, and marketing the crop must happen, but determining how each cog relates to profitability will keep you in business for the next generation.
5. Lack of Communication: Farmers tend to be uncommunicative, but family businesses have many official and unofficial partners with a stake in the business. It is important to keep these partners (spouse, children, employees, lender, equipment dealer, farm supply dealer, etc.) aware of what you are doing at least to the level of their involvement.
6. Avoiding or deferring taxes: The desire to not pay taxes leads to tax decisions that may have long-term negative implications rather than decisions that manage for long-term profitability. We often forget that the tax bill will come due some time in the future.

7. Lack of financial reserves: Both businesses and families lack the financial reserves necessary to make weathering tough times less difficult. This current economic downturn has changed the landscape and businesses will need to depend on these reserves in conjunction with tools provided by their lender.
8. Not managing family living expenses: The family can be a black hole in sucking up money. The only way to manage that black hole is to know what it costs your family to live and then to manage your resources.
9. Following your neighbor: Farming operations are different and the factors that drive your neighbor's decisions are not the same factors you deal with. Why should you follow him? I bet he did not get to be successful following his neighbor.
10. Jumping on the latest/newest/hottest enterprise: The learning curve for new enterprises is steep and expensive. A lot of homework needs to be done before launching a new enterprise, and it is rare to see that homework done. Because an enterprise is successful somewhere does not mean you can make it work here, but the reverse is also true. The right idea, coupled with the right resources, markets, and management traits are essential in raising an idea from the kitchen table to a profitable enterprise.
11. Not training the next generation: Farmers are good at teaching the younger generation about production but less so about financial management. This has a lot to do with a lack of communication, murky long-term plans, and an unwillingness to share control. If the farm is going to survive for generations, that training must occur.

Valley farmers are good at what they do but as with any business they need to constantly strive to do better. The stress of this down economy has not spared any farm and has highlighted any shortcomings in financial management. Most Valley farms will survive these times but only the most efficient will prosper.

The Management Calendar

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

A few thoughts on management and planning: The position I have requires planning for the expected, for example, this newsletter, and the unexpected, a visit from my department head asking me to chair a committee. Regardless of our job or position we have to plan to meet the expected and the unexpected. The last statement, planning for the unexpected, sounds, well silly. How can you plan for the unexpected? How do you plan for a 20% drop in prices or rapidly escalating feed prices driven by the demand for bio-fuels? To answer, I'll quote Dwight D. Eisenhower, who said, "The plan is useless; it's the planning that's important." So even though you spend months working up a superb business plan that lays out in detail how the business will succeed, "it may be useless" when the uncertainty of normal life occurs. Often the focus of getting the plan finished distracts us from the most important task when creating a plan; that is, knowledge and understanding how the business may respond to changes driven by unforeseen

events. The key is the mental exercise you get from planning and developing what-if strategies. Working out hypothetical responses to problems (a 20% drop in net income) and opportunities (a long term lease is available for the 300 acres farm next door) will give you the mental and fiscal agility to make sound decisions. The time spent planning is an investment in planning for the unexpected and the long-term survival of your business. Listed below are useful resources from agricultural and small business planning:

- BeginningFarm.org provides links to a number of useful sites at: <http://beginningfarmers.org/farm-business-planning/>.
- Extension is constantly adding new resources so visit their site at <http://www.extension.org/> and search on “business planning.”
- Visit the Ag Risk Library at the Center for Farm Financial Management under the header “Strategic and Business Planning” <http://www.agrisk.umn.edu/Library/Topics.aspx?LIB=AR>
- Our own Alex White has a number of resources for small business planning at <http://www.extension.agecon.vt.edu/smallbusiness.html>

Listed below are the items that need to be included on the farm business managers' calendar for spring of 2010:

- Half the business year will soon be behind us and a six-month financial record check-up 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 2010 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 be sure to keep in touch with your lender. They all know that we are in a time of uncertain returns. Yet, it's just good business practice to keep them informed of major changes and that you are managing the situation.
- 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.
- Even with the time constraints of summer activities, try to plan and hold 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 problems. Use some of the time to help discuss positive outcomes of previous plans, and recognize individuals for being creative and doing a good job.
- Checking your credit rating in July should become an annual event. Independence Day should remind you that you should be independent from identity theft and credit mistakes. All individuals and business owners should annually check their credit rating. Additional information on your rights to access your credit report and links to the site for obtaining a free copy of your credit report can be found at the Federal Trade Commission's (FTC) web site at <http://www.ftc.gov/freereports>. The FTC cautions consumers to make sure they use the correct site because there are “Imposter” sites.

Selective information available that might be useful for summer reading:

- Interested in the annual per acre rental rates are for cropland and pastureland for the 2009 crop year? Then take a look at VCE publication “2009 NASS Cropland and Pastureland Rental Rates” at <http://pubs.ext.vt.edu/3004/3004-1444/3004-1444.pdf>.
- A recent USDA Economic Research Service study reported that half of farm expenditures are spent locally and the entire report can be found at <http://www.ers.usda.gov/AmberWaves/June10/Findings/FarmExpenditures.htm>. It is worth reading and forward to local officials about the economic impact of agricultural on localities.
- *America's Organic Farmers Face Issues and Opportunities* is the title of a recent USDA Economic Research Service study about the status of organic agriculture in the U.S. with comparison to conventional systems and the “locally grown” label. <http://www.ers.usda.gov/AmberWaves/June10/Features/AmericasOrganicFarmers.htm>
- Need a one-stop location for information about Virginia and all the other states? Then visit <http://www.ers.usdagov/StateFacts/>. The USDA State Fact Sheet site provides information on population, per-capita income, earnings per job, poverty rates, employment, unemployment, farm characteristics, farm financial characteristics, top agricultural commodities, top export commodities, and the top counties in agricultural sales.
- USDA released maps detailing the U.S. local meat processing facilities. Interested in viewing these maps of small livestock and poultry producers and where they are concentrated? See this link at: http://www.fsis.usda.gov/PDF/KYF_maps-050410_FOR_RELEASE.pdf.
- Orchardists and nursery tree growers that suffered from a natural disaster on or after January 1, 2008 and before October 1, 2011, can avail themselves of the *Tree Assistance Program*. For more information on the new TAP program, please contact your county FSA office or the website at <http://www.fsa.usda.gov>.

How Much Time Does it Take to Plant My Crops?

By Peter Callan (peter.callan@vt.edu), Extension Agent, Farm Business Management, Northern District

The old adage “time is money” is easily applied to the net profitability of many farms. The timeliness of planting, spraying, and harvesting of crops has a major impact on yields and quality. With this in mind, producers can find it easy to justify the purchase of larger equipment with the thought to speed up the planting, harvesting and spraying.

Most producers, however, are not able to accurately calculate the amount of time it takes to plant, spray, and harvest an acre of crops with their existing equipment. In order to do this, some questions need to be asked and answered. Is the existing equipment being used to its maximum potential during daylight hours? For example, on many cash-crop farms the producers start their day at 7:00 AM, take 30-60 minutes for lunch, and then work to 7:30 PM. After ~12 hours on a tractor seat, most producers are ready to call it a day. How many additional acres would be covered each day by operating the equipment in the field during lunch hours and from sunrise to sunset? An additional person will be required to keep the equipment moving during the extended days. Would there be an additional cost of labor to do this? On many farms,

rescheduling the existing labor force can keep the equipment operating during the extended hours.

Many producers have the thought in the back of their minds that when it is time to upgrade their equipment, they will purchase a larger model “in order to get in and out of the field faster.” How much additional time will be saved by purchasing the larger model? What is the value of the time that was saved by the larger equipment? Can the value of the savings in time justify the increased cost of the larger equipment?

Over the years, I have watched a cash-crop farm (3,500 acres+), operated by three brothers, become extremely profitable. **They maximized profits by always operating the equipment from sunrise to sunset**, performing scheduled maintenance at proper times, and never buying oversized equipment to keep up with their neighbors. The brothers had a good teacher. On several occasions their father scheduled labor to keep a tractor plowing around the clock from Monday morning to Friday night. The only time that the tractor was shut off was to fuel and service the tractor. In his retirement, their father routinely cultivated from 4:00 AM to Noon as part of the early shift.

At the start of the cropping year, I would suggest that producers keep track of the time and gallons of fuel to plant and spray each field. This information can be easily written in a small pocket notebook. At the end of the planting season I would suggest transferring this information into a spiral notebook or saving the information in the farm’s computer. Later in the year, similar information will be collected for harvesting the crops. At the end of the year this information will be summarized.

A future article will discuss how this information can easily be used to develop a cost accounting program for your farm. My sister-in-law has developed and implemented a simple, quick, and accurate cost accounting program on their dairy/cash-crop farm. She has developed a system where she has “trained” my brother to spend a maximum of 5 minutes reviewing the bills that come in the mail each day. The system has worked well because my brother knows that he will not be fed dinner that day unless he reviews the bills! The program has been extremely successful because my brother carries a large tire around his waist! Best wishes for a safe and profitable year.

Calendar of Events

June

- 14-17 State 4-H Congress. Virginia Tech Campus; Blacksburg, VA. Contact State 4-H Office at (540) 231-6372.
- 21-24 State FFA Convention. Virginia Tech Campus; Blacksburg, VA. Contact Andrew Seibel at (540) 231-3823 or by email at gseibel@vt.edu.