

Virginia Cooperative Extension



Farm Business Management Update February 2012 - March 2012

Farm Business Management Update is a joint effort of the Agricultural and Applied Economics faculty and the area farm management educators. Subject matter areas include timely information on farm management, marketing, tax management, finance, credit, labor, agricultural law, agri-business, estate planning, 4-H 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 (www.ext.vt.edu/news/index.html). To see the articles listed in the reverse chronological order, look under the listing of “Newsletters,” then select “Farm Business Management Update.”

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Extension Economist

Farm Management and Farm Management Coordinator

<u>Item</u>	<u>Page</u>
AAEC Welcomes a New Department Head	1
The Management Calendar	1
Beef Prices in 2012	4
Production of Wine and its Distribution in the United States Market.....	4
New Publications From the Agricultural and Applied Economics Department	8
The Governor's Conference on Agricultural Trade	9
A Comprehensive Approach to Farm Business Succession Planning	10
Calendar of Events	11

AAEC Welcomes a New Department Head

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

Dr. Steven C. Blank will begin his new position as Head of the Agricultural and Applied Economics on April 1, 2012. Steve Blank is currently a professor in the Department of Agricultural and Resource Economics at the University of California-Davis. He has done outstanding work in extension, research, and teaching at both the undergraduate and graduate levels with numerous awards for scholarship and extension programs. His work focuses on financial management, risk and decision-making, risk management tools, and management methods. Dr Blank also has administrative experience while at UC Davis where he served for six years as Assistant Vice-Provost for Academic Personnel. Welcome!

The Management Calendar

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

Listed below are the items that need to be included on the farm business managers' reading list and calendar for the next two months.

- **Taxes and related items:** 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.
 1. Need to find out more information about federal taxes? The Farmers Tax Guide IRS Publication 225 is online and can be found at: <http://www.irs.gov/pub/irs-pdf/p225.pdf>.
 2. A summary of changes and basic federal income tax information is published annually by George F. Patrick in the Department of Agricultural Economics at Purdue University. Please read the publication titled "Income Tax Management for Farmers" at (please copy the link to your web browser if you have problems) www.agecon.purdue.edu/extension/programs/tax/2011_INCOME_TAX%20MANAGEMENT_FOR_FARMERS.pdf.
 3. Decide how much you'll contribute to an IRA for the 2011 tax year and set goals for 2012. If you use a certified financial planner (CFP), consider his/her 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 search for a CFP in your area at <http://www.cfp.net/>.
 4. Beginning January 1, 2012, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:
 - 55.5 cents per mile for business miles driven
 - 23 cents per mile driven for medical or moving purposes
 - 14 cents per mile driven in service of charitable organizations
 - For more details see the IRS site www.irs.gov/newsroom/article/0,,id=250882,00.html.

- A must read for all of us involved in agriculture is the current issue of “Choices,” published by the Agricultural and Applied Economics Association and can be found at www.choicesmagazine.org/. Two themes were highlighted in the fourth quarter issue of 2011:
 1. **Analyses of forces affecting the U.S. fresh produce industry**
 - Fundamental Forces Affecting U.S. Fresh Produce Growers and Marketers
 - Fundamental Forces Affecting the U.S. Fresh Berry and Lettuce/Leafy Green Subsectors
 - The FDA’s Food Safety Modernization Act and Its Economic Implications
 2. **Critical farm bill issues**
 - Certification Schemes for Biofuel Sustainability Will Not Work
 - Why was ACRE a No-Go With Iowa Farmers?
 - Distributional Impacts of Capping Eligibility for Commodity Program Payments
 - Crop Insurance and the Future Farm Safety Net
- Our friends at Mr. Jefferson’s *Weldon Cooper Center for Public Service* released a publication titled *Agriculture in Virginia Beach: Impact on the City Economy* by Terance J. Rephann. The report from this study can be found at www.coopercenter.org/econ/publications/agriculture-virginia-beach-impact-city-economy-0.
- There are two articles in the latest issues of the *Economic And Policy Update* from the Department of Agricultural Economic at the University of Kentucky that should be of interest to Virginia farmers:
 1. *Stocker and Backgrounding Outlook for 2012* – Greg Halich and Kenny Burdine
 2. *Regional Farm Market Sampling Study Results* – Tim Woods
 URL for this issue is www.ca.uky.edu/agecon/index.php?p=209
- Interested in reading about the current financial situation and what the future may hold? Take a look at the paper by R. Andrew Bauer and Betty Joyce Nash of the Richmond Federal Reserve Bank titled, *Where Are Households in the Deleveraging Cycle?* at www.richmondfed.org/publications/research/economic_brief/2012/eb_12-01.cfm
- How are farm households stacking up compared to all U.S. households? If you want to know, take a look at the USDA-ERS website www.ers.usda.gov/Briefing/WellBeing/. The briefing room compares the financial well-being of farm households relative to all U.S. households; identifies the contributions of off-farm employment, non-farm self-employment, transfer payments, and financial market investments in household income; and discusses how taxes influence both income and wealth. The briefing room also describes the demographic characteristics of the principal farm operator households and how members of these households allocate their time to farm and off-farm work.
- How is our land being used? This USDA report presents findings from the most recent (2007) inventory of U.S. major land uses, drawing on data from the U.S. Census Bureau, public land management and conservation agencies, and other sources. The data are synthesized by State to estimate the use of several broad classes and subclasses of agricultural and nonagricultural land over time. National and regional trends in land use are compared with earlier major land-use estimates. For the report, see www.ers.usda.gov/Publications/EIB89/ and the data can be found at

<http://www.ers.usda.gov/Data/MajorLandUses/> (Please copy the URL if you have problems).

- Get your farm's 2011 financial records closed out: Post all income and expenses paid during 2011 in your record book or accounting software. You still have 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.
- Need another copy of the Farm Record Book: Annual Expenses and Receipts, Virginia Cooperative Extension publication 446-017? Then print the order form at www.ext.vt.edu/pubs/agecon/446-016/446-016.pdf. The price is \$12.00.
- Use your 2011 records to 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 weaknesses and strengths.
- Seek assistance from Virginia Cooperative Extension's farm business management agents, lenders, or your accountant to develop a detailed financial analysis of your farm business, including the major 21 financial ratios. These ratios and a detailed financial analysis can be generated by using the Center for Farm Financial Management (www.cffm.umn.edu/) program FINAN (www.cffm.umn.edu/FINPACK/default.aspx). 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 are at www.cffm.umn.edu/FINPACK/default.aspx.
- Using last year's financial and production records, finalize your balance sheet, cash flow and income statements for 2011 and your projected budget for 2012. If you use Quicken® or QuickBooks® make use of the budget section to create a 2012 budget based on 2011 records. All 2011 budget entries can be modified to reflect anticipated changes in 2012.
- Take your 2011 financial records and 2012 projected whole-farm budgets and cash flow statements to your lender to discuss line-of-credit needs and plans for 2012. Using the FINPACK (www.cffm.umn.edu/FINPACK/default.aspx) programs or your Quicken® or QuickBooks® can help with this process.
- Grain and livestock producers should have their marketing strategies/plans in place for 2012 marketing year. Be sure to check with your local Farm Service Agency for changes in government programs and signup deadlines.
- The end of February and March 15 are the cutoff dates for signing up for most crop insurance policies in Virginia and dates depend on insurance product and where you live. Details on crop insurance and closing dates are best discussed with a local crop insurance agent. You can locate a local agent by visiting the following web site <http://www3.rma.usda.gov/apps/agents/>.
- Interested in finding a listing of all types of agricultural software? The Alberta Department of Agriculture and Rural Development has the most comprehensive listing of computer software designed for farm and agribusiness on the web <http://www.agric.gov.ab.ca/app68/agsoft>.

Beef Prices in 2012

Carl C. Stafford (ccstaffo@vt.edu), Extension Agent, Agriculture and Natural Resources, Animal Science, Northern District

Allen Greenspan famously attributed high stock prices in 1996 to “irrational exuberance.” That is not the case for current high beef prices. Market fundamentals are driving the increases.

There is a shortage of cows which produce feeder calves and produce the high quality beef we enjoy. In addition to fewer finished steers coming to market, the cow shortage means there are fewer of them to slaughter for hamburger and other lower quality cuts. To be sure we are harvesting more pounds of beef per finished beef animal today than ever before, so it takes fewer to produce the same amount of beef. However, this does not compensate for the cow shortage.

Exports are another fundamental fact driving the beef industry. We sell other countries all types of beef products. Some think steak is the only exported beef product – not true but it is in great demand. Would you believe beef tongue has significant appeal to some and they will pay good money for it? My grandfather fixed it cold with mustard, served on a sandwich – good eating. The point is beef is selling around the world and United States beef is at the top of the shopping list of those who can afford it.

These two points help explain the historically high beef prices, both on the hoof and in the supermarket. However, Randy Blach of Cattle Fax suggests there is a correction in our beef price future. Will you be prepared?

Timing the market is nearly impossible, so stick to your usual marketing plan; raise calves as you always have, putting on gains and selling them at your “market ready” weight when you usually do. As the work by Kevin Dhuyvetter at Kansas State suggested, what you do with your income has more to do with your profitability than the amount of income you make.

Production of Virginia Wine and its Distribution in the United States Market

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Lex Bruce (fbruce@vt.edu), Research Associate, Department of Agricultural and Applied Economics, Virginia Tech

Introduction - In 2010, and despite the recent economic downturn, the U.S surpassed France as the world's largest wine-consuming nation. A total of 330 million cases were sold in the United States last year, and the estimated retail value of these sales was \$30 billion (Wine Institute, 2011). A growing national market coupled with an increasing demand for wines produced in states other than California present large opportunities for the Virginia wine industry. The number of wineries and production of wine has been steadily growing in Virginia, and the state is currently home to over 200 wineries in comparison to 107 in 2005 and only a handful in 1980. Furthermore, several Virginia wines have been presented at numerous competitions and their quality has been recognized nationally and internationally. For instance, Virginia wines won 22

medals at the 2012 San Francisco Chronicle Wine Competition - the largest annual contest featuring wines from around the United States (Virginia Wine Board Marketing Office, 2012). This article discusses some current issues related to the production of Virginia wines and their distribution in the U.S. market.

Production - According to the International Trade Administration (2010), the top 10 U.S. grown wine grape varieties are Chardonnay, Cabernet Sauvignon, Zinfandel, Merlot, Pinot Noir, French Colombard, Syrah, Sauvignon Blanc, Pinot Gris and Rubired. According to the Virginia Wine Board Marketing Office, the top six varieties produced in Virginia in 2010 accounted for over 60 percent of total production and included: Chardonnay (15%); Cabernet Franc (13%); Merlot (11%); Vidal Blanc (8%); Chambourcin (7%); and Cabernet Sauvignon (7%). The number of Virginia wineries producing specific grape varieties were calculated and shown in Table 1. The results reveal a dominance of Cabernet Franc, Cabernet Sauvignon, and Merlot among red wines, while Chardonnay, Traminette, Viognier, and Vidal Blanc are Virginia's leading white wines.

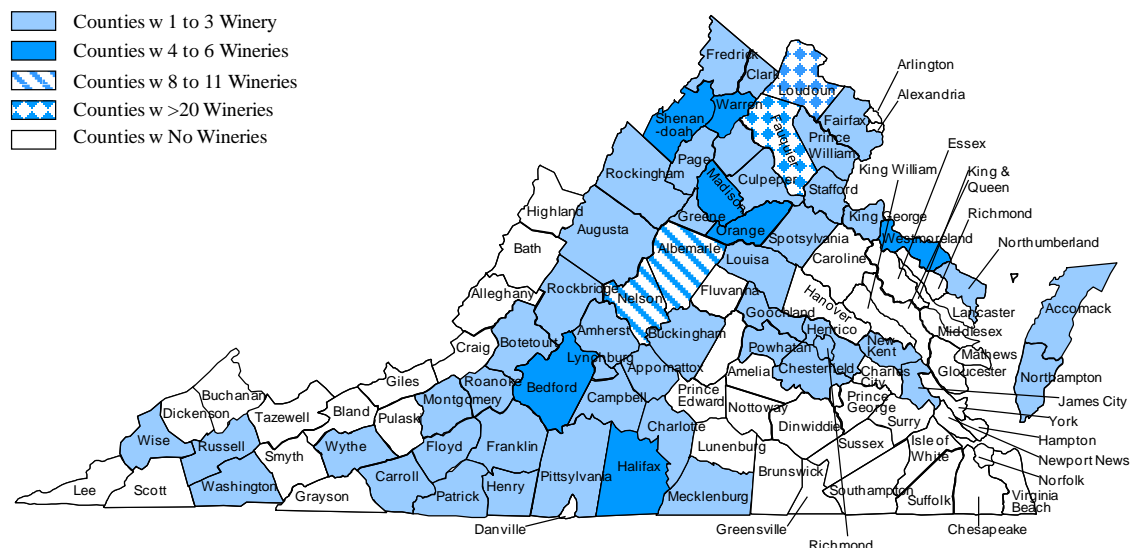
Table 1. Number of Virginia wineries producing specific grape varieties (2011)

Red wines	Number of Virginia wineries	White wines	Number of Virginia wineries
Cabernet Franc	24	Chardonnay	23
Cabernet Sauvignon	16	Traminette	14
Merlot	14	Viognier	14
Chambourcin	13	Vidal Blanc	13
Norton	7	Riesling	10
Petit Verdot	7	Sauvignon Blanc	5
Pinot Noir	7	Seyval Blanc	4
Syrah/Shiraz	4	Gewurztraminer	2
Sangiovese	2	Albarino	1
Touriga	2	Petit Manseng	1

Source: Author's own calculations from virginiawine.org

In terms of geographic distribution of the production of wine, most Virginia wineries are concentrated in the northern and central parts of the state as shown by Figure 1. More specifically, Loudon and Fauquier counties have 27 and 21 wineries respectively. Moreover, their proximity to a large market like Washington D.C. gives this region an important competitive advantage. The other visible production cluster is centered on the Charlottesville area and includes Nelson and Albemarle counties, which have a combined total of 22 wineries.

Figure 1. Distribution of Virginia wineries by counties (2011)



Source: Author's own calculation from virginiawine.org

In summary, data shows that Virginia is relatively aligned with the rest of the nation in the production of the most popular red and white grapes varieties (i.e. Chardonnay, Merlot, and Cabernet Sauvignon). However, and at the same time, the state is seeking to differentiate itself from other main wine producing regions and now offers quality Cabernet Franc, Viognier, and Vidal Blanc wines. In other words, the state is in the process of building its own “wine identity.”

Sales and Distribution - Table 2 depicts the top five wine sold wines off-premise in the U.S. during 2010, and it provides a picture of America's taste for grape varieties. These varieties can be found in most retail businesses selling wine, and often have a designated section at the shelf space.

Table 2. Top five wines sold off-premise in the US (2010)

Rank	Red Wines	White Wines
1	Cabernet Sauvignon	Chardonnay
2	Merlot	Pinot Grigio/Gris
3	Pinot Noir	Sauvignon Blanc
4	Syrah/Shiraz	Moscato
5	Zinfandel	Riesling

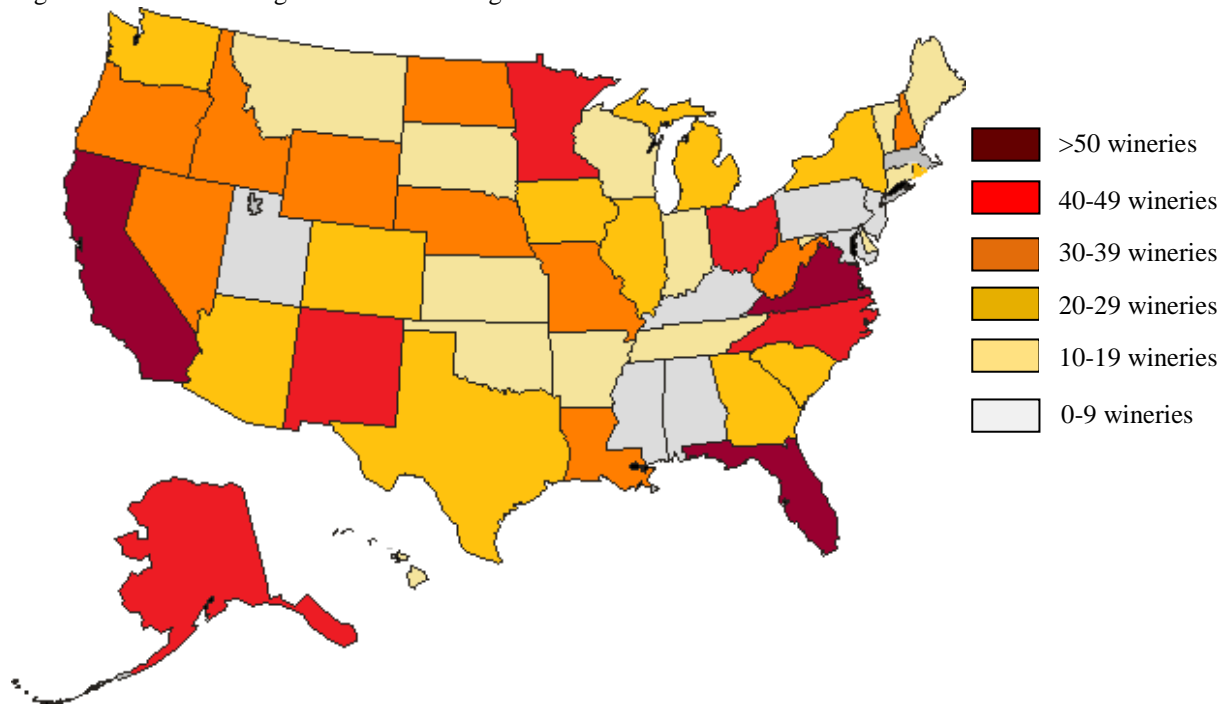
Source: The Nielsen Company

Wine distribution in the United States is affected by a myriad of laws and regulations that are enacted and enforced by each individual state. Such regulations determine the distribution channels available to wineries and in some states they can be quite restrictive to wine trade.

Figure 2 describes where Virginia wine is distributed and sold across the country. More specifically, it shows how many Virginia wineries sell their wines in each of the states. Only three states (Virginia, California, and Florida) have more than 50 Virginia wineries selling their products. Between 40 and 49 Virginia wines are sold in Minnesota, Alaska, North Carolina, Ohio, and New Mexico. Virginia wineries also managed to place their products in many Midwestern states. Surprisingly, Virginia wines have a very small presence in neighboring states such as Maryland, Kentucky, or Pennsylvania.

One other important fact for the Virginia wine industry is that most of the wine sold in the United States is sold in relatively few markets. More specifically, approximately 60 percent of the wine sold in the U.S. is sold in 10 states, with California alone accounting for about 20 percent (Newman, 2001). In terms of per capita consumption the District of Columbia, several New England states, California, and Hawaii are the leading markets (U.S. Census Bureau, 2010). Hence, if a particular winery aims to build a major brand it can concentrate on specific regions rather than attempt national distribution. Thus, a winery may want to market its products through regional importers or regional sales agents rather than having a single national distributor – a much more costly strategy.

Figure 2: Number of Virginia wineries selling their wines in each state.



Source: Authors' own calculations based on data from virginiawine.org

Conclusion - The size of the U.S. wine market continues to grow and American consumers' demand for more locally produced wine is also on the rise. Virginia wineries are concentrated in two major geographic areas. Finally, most of their sales are concentrated in eight states. This fact confirms that there is room for further growth in sales of Virginia wines in the domestic market.

References

Newman, M. B. *Chapter 26 Distribution Strategies and Legal Barriers*. In Moulton, K. and Lapsey, J. (2001) *Successful Wine Marketing*. Aspen Publishers, Inc., p. 263-270.

Record High 2010 Wine Shipments Make U.S. the World's Largest Wine-Consuming Nation, *Wine Institute*, May 2011. Available at <http://www.wineinstitute.org/resources/pressroom/03152011>

U.S. Census Bureau, *Current Population Survey, 2008, 2009, and 2010 Annual Social and Economic Supplement*. Available at <http://www.census.gov/cps/>.

U.S. Wine Industry in 2011, *International Trade Administration*. Available at <http://www.ita.doc.gov/td/ocg/wine2011.pdf>

Virginia Wines Awarded 22 medals at 2012 San Francisco Chronicle Wine Competition, *Virginia Wine Board Marketing Office*. Available at http://www.virginiawine.org/system/datas/343/original/VA_Wines_Awarded_22_Medals_at_2012_San_Francisco_Chronicle_Wine_Competition.pdf?1326480879

New Publications From the Agricultural and Applied Economics Department

Freshwater Shrimp Boils: A Festive Community Event for Fun and Profit authored by Daniel Kauffman, Extension Specialist Seafood, Virginia Seafood AREC, Martha Walker, Community Viability Specialist, Virginia Cooperative Extension, and Leanne DuBois, Virginia Grown Manager, Virginia Department of Agriculture and Consumer Services can be found at http://pubs.ext.vt.edu/AAEC/AAEC-28/AAEC-28_pdf.pdf. Freshwater shrimp are being grown in ponds by farmers in Southside Virginia. A pilot boil, for the purpose of encouraging other such events, was done in September of 2011 in Pittsylvania County. Most people attending said the taste was excellent and the evening fun. Such events could be done either by for profit groups or by civic clubs as fund raisers for community projects. If such events spread in Southside Virginia, where the shrimp are grown by farmers, it could: 1) Help farmers sell more shrimp, 2) Raise money for community projects, and 3) Raise the public's awareness of this locally grown shrimp and possibly open other marketing channels.

A Comparative Analysis Between Virginia's and North Carolina's Wine Industries authored by Gustavo Ferreira, Instructor, Agricultural and Applied Economics can be found at http://pubs.ext.vt.edu/AAEC/AAEC-29/AAEC-29_pdf.pdf. The number of wineries and production of wine has been steadily growing, particularly since the mid-1990s. Virginia has a major competitive advantage over North Carolina, namely its geographic proximity to affluent and densely populated areas that include Washington, D.C., Richmond, and Norfolk/Virginia Beach. Virginia wine producers should fully explore these market opportunities and be ready to meet increases in the demand for wine in these areas.

The Governor's Conference on Agricultural Trade



Mark your calendars to attend "The Governor's Conference on Agricultural Trade" to be held in Richmond at the Omni Hotel, March 13-14, 2012. The conference registration starts at 10:00 AM on March 13 with the Governor's Keynote Address at 12:00 Noon.

A few additional highlights of the conference:

- The United States-Korea Free Trade Agreement (KORUS FTA)
- One of the world's leading lenders to agriculture will give their perspective of the changing economic conditions and demand for food/fiber.
- The "how to panel" is always a success with speakers telling what they do and how it works in the real world
- Understanding policy/politics of the 2012 Farm Bill
- The Embassy Panel gives participants a view of US Ag from their countries' perspective.

SAVE THE DATE – March 13 & 14, 2012
The Governor's Conference on Agricultural Trade
Omni Hotel, Richmond, VA

*Organized by the Virginia Department of Agriculture & Consumer Services,
the Virginia Farm Bureau Federation, the Virginia Port Authority,
and the Virginia Tech Department of Agricultural and Applied Economics*



For the 4th year in a row the conference organizers are excited to offer this outstanding workshop on the international trade of agricultural goods. We are especially honored that Governor McDonnell, who has been an ardent advocate for and a staunch promoter of increasing Virginia exports, has agreed to add his name to this important event.

An outstanding lineup of speakers is already scheduled for 2012.
Past presenters have included:
The Honorable Robert McDonnell, Governor of Virginia
Ambassador Islam Siddiqui, Chief Agriculture Negotiator, USTR
Larry Pope, CEO, Smithfield Foods
The Honorable Todd Haymore, Secretary of Agriculture & Forestry
Bob Stallman, President, American Farm Bureau Federation
Jerry Bridges, Executive Director, Virginia Port Authority
REGISTRATION OPENS IN DECEMBER, 2011
For information on sponsorship opportunities, questions, assistance,
or to be added to mailing list, contact:
Brenda at 804.290.1155 or brenda.fleming@vafb.com or
Spencer at 804.290.1153 or spencer.neale@vafb.com

“A Comprehensive Approach to Farm Business Succession Planning”



A Farm Transition Workshop Series

will be held on

Thursday, February 23 and Thursday, March 1
from 9 a.m. – 3:30 p.m.

at the

County Seat Restaurant, 3883 Old Buckingham Road in Powhatan, Virginia



Families with questions about taxes, legal and family issues of transferring their land and agriculture, greenhouse, and nursery businesses are encouraged to attend the two day workshop series.

The two part workshop series will help farm owners and their families plan for the successful transfer of the farm land and business. Some of the topics that will be included in this program are:

- Goals for the Future of Your Farm – Handling the tough issues of family communication
- Business Profitability – Maximizing income to assist in farm transfer
- Retirement Planning – Developing a stable income stream in your later years
- Estate Planning – Approaching tough questions about fairly dividing your estate
- Tax Management Issues – Minimizing taxes in business and wealth transfer
- Business Organizations – Utilizing business entities to manage and transfer assets

The speaker panel will include attorneys who have expertise in ownership succession issues, the use of limited liability companies (LLCs), and other techniques used to transfer wealth, tax management issues and elder law.

The \$10/person registration fee will help cover program expenses. Lunch is included in this partially grant funded program. Registration must be received by **February 20, 2012**.

Please contact Kathy Howland at the Virginia Cooperative Extension Office in Powhatan, VA
at (804) 598-5640 -if you need more information.

Names of those attending: _____
(Please Print)

Address: _____

**Please enclose
\$10 per person.**

Please make checks payable to: VCE-Powhatan County

and send them with the completed form to:

**3910 Old Buckingham Road, Suite B
Powhatan, VA 23139**

no later than February 20, 2012

This material is based upon work supported by funding from the Virginia Department of Agriculture and Consumer Services revenue generated from the Virginia Agriculture license plate

If you are a person with a disability and desire any assistive devices, services, or other accommodations to participate in this activity, please contact Kelly Liddington, Richmond Co. Unit, Virginia Cooperative Extension, at 804-333-3420 during business hours of 8:00 a.m. to 5:00 p.m., Monday through Friday, to discuss accommodations one week prior to this event.

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Calendar of Events

February

- 17 Farm Transition Workshop: Overview of Farm Transition (9:30 AM – 4:00 PM). Alberta Campus, Southside Virginia Community College, 109 Campus Drive, Alberta (434) 949-1000. Contact Vernon Heath by phone at (804) 829-5675 or by email at vheath@vt.edu or Ann Ragland by phone at (434) 949-6185 or by email at vcevsu2006@yahoo.com.
- 23 & 3/1 A Farm Transition Workshop Series will be held on Thursday, February 23 and Thursday, March 1 at 9:00 AM to 3:30 PM. A Comprehensive Approach to Farm Business Succession Planning. County Seat Restaurant, 3883 Old Buckingham Road in Powhatan, VA. Contact Kathy Howland at (804) 598-5640.

March

- 13-14 The Governor's Conference on Agricultural Trade. Omni Hotel, Richmond. Contact Brenda Fleming by phone at (804) 290-1155 or by email at brenda.fleming@vafb.com or Spencer Neale by phone at (804) 290-1153 or by email at spencer.neale@vafb.com.