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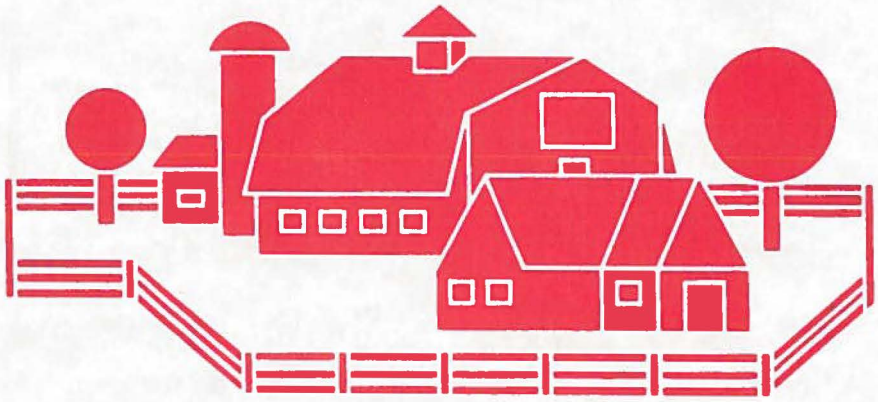
MM-401

North Central Region

FARM MANAGEMENT EXTENSION WORKSHOP

FARM MANAGEMENT: CHALLENGES AND RESPONSIBILITIES FOR A NEW AGE



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EXTENSION'S ROLE WITH LARGE COMMERCIAL FAMILY FARMS

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Farm businesses have grown larger, more complex, and more challenging to manage. These trends will continue in the decade ahead. In 1981 the 4.6% (112,000) of the U.S. farms that had annual gross incomes of $200,000 or more accounted for 49.3% of total cash farm receipts and 86.6% of total net farm income (Table 1). Farms with cash receipts exceeding $200,000 are mostly family farms with over 95% organized as sole proprietorships, partnerships, or family corporations.* Cash receipts of $200,000 can be generated by 800 acres of crops or 125 farrow-to-finish sows or 100 dairy cows or 300 fed cattle or some combination of crops and livestock. These enterprise sizes are about the level needed to gain most of the economies to size.

The topics to be addressed here are: why large farms should be part of the farm management specialist's clientele; how extension specialists can best serve large farms; and finally what challenges must farm management extension specialists meet in order to be successful in working with large farms.

Why Large Farms Should Be Part of Extension's Clientele

Over half of total agricultural production will soon be from farms with over $200,000 gross income and this amount is likely to continue to grow. The share of the net farm income (86.6%) on large farms is greater than the share of cash receipts (49.3%) indicating that they are competitive.

The needs of these large farms for management information, analysis, and counsel will not diminish. The demand for what farm management extension specialists have to offer will be greater than ever in the future. From the standpoint of enhancing the efficient production of food and other agricultural products, the operators of large farms is an important clientele for extension to serve.

How Should Extension Specialists Provide Farm Management Information to Large Farms

In making a plan for working with large farms the extension specialist needs to consider:

- Total demands for the farm management specialist time.
- By what means do large farms choose to receive management information and education.

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* U.S. Census of Agriculture, 1982.

Table 1. Total farm operator family farm and off-farm income, by value of sales class, 1981 a/

Item	$500,000 and over	$200,000 to $499,999	$100,000 to $199,999	$100,000 and over	$40,000 to $99,999	$20,000 to $39,999	$10,000 to $19,999	$5,000 to $9,999	$2,500 to $4,999	Less than $2,500	All farms
						Thousands					
Total farms:											
Farms	25	87	186	298	396	278	286	335	332	511	2,436
						Million dollars					
Cash receipts	44,727	27,856	28,150	100,733	27,983	9,042	4,686	2,778	1,389	721	147,332
Net farm income 1/	12,978	3,983	2,949	19,910	1,509	-244	-292	-331	-462	-501	19,589
Off-farm income	N/A	N/A	N/A	4,104	3,383	2,826	4,010	6,170	7,377	11,459	39,329
Total income	N/A	N/A	N/A	24,014	4,892	2,582	3,718	5,839	6,915	10,958	58,918
						Percent					
Distribution:											
Farms	1.0	3.6	7.6	12.2	16.3	11.4	11.7	13.8	13.6	21.0	100.0
Cash receipts	30.4	18.9	19.1	68.4	19.0	6.1	3.2	1.9	.9	.5	100.0
Net farm income 1/	66.3	20.3	15.1	101.7	7.7	-1.2	-1.5	-1.7	-2.4	-2.6	100.0
Off-farm income	N/A	N/A	N/A	10.4	8.6	7.2	10.2	15.7	18.8	29.1	100.0
Total income	N/A	N/A	N/A	40.8	8.3	4.4	6.3	9.9	11.7	18.6	100.0
						Dollars					
Per farm:											
Net farm income 1/	518,635	45,666	15,867	66,790	3,813	-880	-1,022	-988	-1,389	-982	8,042
Off-farm income	N/A	N/A	N/A	13,772	8,543	10,165	14,021	18,418	22,220	22,425	16,145
Total income	N/A	N/A	N/A	80,562	12,356	9,285	12,999	17,430	20,831	21,443	24,187
						Percent					
Addenda:											
Off-farm income as a percentage of total income	N/A	N/A	N/A	17	69	109	108	106	107	105	67

N/A = not available.
1/ Includes farm households. Excludes net farm inventory change.

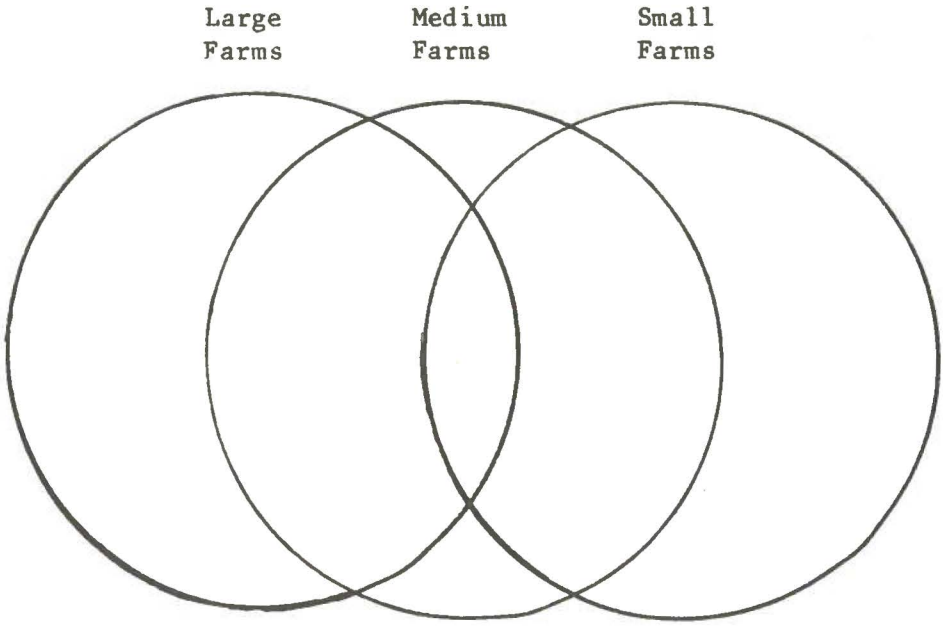
a/ Source: Economic Indicators of the Farm Sector, Farm Sector Review, 1982; USDA, ERS, Washington, D.C., May 1983.

- Sources other than extension which are available for providing management information to large farms.

- The important management information and education needs of large farms.

1. Should Farm Management Extension Specialists Target Their Time For Work With Large, Medium, and Small Farms?

Small, medium, and large farms have some management information needs which are the same and some which are different.



Society may ask: "Are you concentrating too much time on large farms at the expense of small farms?" Wouldn't it be desirable to have a plan and an answer -- "I am spending X% of my time on large farm needs, Y% on medium farm needs, and Z% on small farm needs?" Where several specialists work together each person might specialize responsibilities by size of farm.

An important consideration for extension in its work with large farms is the relatively small number. For example, of a total of 77,180 farms in Indiana only about 6,000 have cash receipts of above $200,000.[1]

2. How Do Large Farms Seek Management Information and Methods?

Managers of large commercial farms responded to the question "In what ways would you prefer to obtain information" as shown in Tables 2-5.

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[1] 1982 Agricultural Census.

Table 2
Preferred Way of Obtaining Production Technology Information

Method	Number	Percent
Consultation with experts	295	34
Newspapers, magazines, etc.	246	28
Meetings	246	28
Neighbors	51	6
Television or radio	39	4
Total	877	100

Table 3
Preferred Way of Obtaining Marketing Information

Method	Number	Percent
Consultation with experts	266	31
Newspapers, magazines, etc.	255	29
Meetings	164	19
Neighbors	140	16
Television or radio	43	5
Total	868	100

Table 4
Preferred Way of Obtaining Information on Purchasing Supplies

Method	Number	Percent
Consultation with experts	281	34
Newspapers, magazines, etc.	273	33
Meetings	106	13
Neighbors	103	13
Television or radio	56	7
Total	819	100

Table 5
Preferred Way of Obtaining Business Management Information

Method	Number	Percent
Consultation with experts	351	44
Newspapers, magazines, etc.	228	29
Meetings	178	22
Neighbors	27	3
Television or radio	16	2
Total	800	100

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[1] "Large Commercial Family Farms Informational Needs and Sources", A Report of the National Extension Study Committee, September 1, 1978.

The conclusions that one can draw from their responses are:

- Consultation with experts rates very high.
- They prefer to obtain much of their information from reading.
- They see meetings as a useful way of obtaining information.

To reach the operators of large farms it appears that an extension specialist must (1) be an expert, (2) consult with farmers, (3) write extension publications and magazine articles and (4) direct farmers to appropriate readings, experts, and meetings. All of these complement each other. By talking with farmers and other experts the specialist becomes aware of farmer needs. By collecting and analyzing information, and then writing about the observations the specialist becomes an expert who is known to farmers and is sought out as a consultant.

The county agent will not generally be an expert consultant but often will serve as a reference person for expert consultants and publications, both extension and commercial. One of the roles of the specialist is to keep the county agent supplied with information about publications and consultants.

Holding centrally located workshops of one-half day to three days can be an efficient way to provide meetings, publications, and expert consultation to groups of farmers rather than relying on one-to-one contacts. Preparations for these specialized workshops may result in the collection of information and the development of analytical procedures that can be useful for publications and meetings that focus on farms of all sizes.

Because the number of large commercial farms is relatively small it is possible to work with a high percentage of these farms in a series of workshops. Purdue has held approximately 200 crop workshops on Campus and across Indiana during the past 15 years with an attendance of over 7,000 farmers. A large proportion of Indiana's large farmers have participated in these workshops.

Why has the workshop idea not been more widely used by extension? Here are two hypotheses:

- Agricultural administrators have been concerned with the "image" that working with large farms conveys and therefore have not strongly supported workshops for large farms. If this is true, concern might be reduced if specific programs are targeted for each specific size group.
- Extension does not have sufficient information and methods to attract the managers of large farms. One of the key elements in making the Purdue Crop Workshops a success over many years has been the development and continuous improvement of a crop planning computer program. Without substantial research investment

over a long period of time it is not likely that the workshops would have continued. But farm management research has been eroding away and farm management extension specialists may not always be able to offer the information and methods that will attract managers of large farms.

3. Extension's Role in Providing Management Information and Analysis

Extension specialists have resources to fill only a part of the management information and analysis needs of large farms. It is important that specialists use these resources wisely, doing those things with which they have a unique advantage and guiding farmers to use other sources to fill the remainder of their needs. Some of the numerous sources of management information and analysis for commercial farmers include:

- ASC
- SCS
- Suppliers of inputs
- Professional farm managers
- Consultants
- Accountants
- Attorneys
- Market information services
- County extension agents
- Soil testing services
- Consulting veterinarians
- Crop scouting services
- Appraisers
- Farm magazines
- Doane Agricultural Newsletter
- Books
- Lenders
- Record services

What are the comparative advantages of extension specialists?

- Extension specialists are unbiased analysts and can ask questions that lead operators to best solutions without being concerned about what these solutions might be.

- Extension specialists usually have access to multidisiplinary research, extension, and commercial contacts which can be very helpful in conducting a comprehensive analysis.

- Farm management specialists have a view of the total farm business and farm family that enables them to guide farmers to a more relevant evaluation of decisions and the impact that these decisions will have on the farm and on the family.

- Extension specialists have a contact network including county extension offices, newspapers, magazines, commercial consultants, radio, television, etc. that enables them to reach farmers quickly.

- Extension specialists have established credibility with farmers and their ideas are usually well received.

4. Let us now examine the areas of need of large farms and consider extension's role in meeting these needs.

- Production Technology. Farmers will continue to need information to assist them in the evaluation of new technology especially as it fits their particular business. While farm suppliers and farm magazines will provide much of the needed information, extension has two important advantages in evaluating new technologies: (1) the ability to be an objective analyst, and (2) the opportunity to draw information and judgments from scientists in several disciplines.

Farmers are deluged with claims about the advantages of a variety of new inputs. They need an objective analyst to help them evaluate total costs and returns of new inputs and management practices and the impact that these inputs and practices will have on their farm business. Farm management extension specialists are appropriate people to provide this unbiased approach.

Currently, for example, there is a need for evaluating alternative tillage systems. Information needed includes how innovative systems affect (1) cost per acre, (2) machinery requirements, (3) yields, (4) capital requirements, (5) optimum size of farm, (6) soil losses, (7) chemical use and loss, (8) prices of used machinery, (9) farm organization, and (10) profit.

- Marketing and Purchasing. Farmers rank marketing information as one of their critical needs.[1] Marketing decisions can be classified into two types: (1) marketing techniques and (2) when-to-price-the-product. Marketing techniques involve such decisions and practices as choosing the best market, keeping several marketing options open, controlling quality to obtain a higher price, and checking stored products to be sure they are in good condition. Having considerable control in these decisions, a manager has the opportunity to increase profits by doing the correct thing at the proper time. Extension has an important role in providing information and an analytical framework for making marketing technique decisions.

The when-to-price-the-product decision is closely related to the amount of risk a manager is willing to accept and the manager's ability to forecast prices. Outlook information should be presented in a "probability" context and special emphasis should be placed on teaching the consequences that various when-to-price decisions can have on the financial stability of the business and the goals of the operator.

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[1] "Large Commercial Family Farms Informational Needs and Sources," A Report of tne National Extension Study Committee, September 1, 1978.

There are numerous market information agencies that provide when to price information. Perhaps one of the best contributions of the extension specialist is helping farmers interpret the implications of market forecasts for decisions across the entire farm business.

• Financial Management. Some farmers lack an understanding of balance sheets, income statements, cash flow projections, and the relationships among these and the key factors affecting profit, cash flow, and net worth. They may not know the types of information needed for measuring marketing and production efficiency. Managers of large farms need to understand control systems and how to determine if the business is operating according to plans. Large farms must have information about sources of credit and leasing to gain control of the $500,000 or more required by most of these businesses. Large farms have substantial debt (Figure 1) and therefore an understanding of financial management and financial records is important.[3]

Extension specialists have an important role in providing educational publications and programs in financial management. Individual farms often require intensive work and more time than the extension specialist can justify. Consultants, professional farm managers, record services, and lenders should provide the continuing help needed by most farm businesses. Extension has a role in making farmers aware of persons and agencies that can provide financial management help.

• Record Systems provide information for determining profit and net worth and measuring crop and livestock efficiency and total business efficiency.

Since agriculture is a competitive business it is crucial that farmers have information with which to compare key factors affecting enterprise profit to other farms. Some farm suppliers and commercial agencies provide this information, but in some geographic areas and for some enterprises farmers depend on the extension specialist. Information that is enterprise specific is most useful. Farm management specialists must teach the use of computers for storing information, keeping records, and doing analytical work.

• Adjusting the Farm Business to Changing Economic, Political, and Social Conditions. Farmers are sometimes so involved with their businesses that they do not observe the many changes going on outside the farm, nor do they evaluate the implications of these changes for the organization and operation of the farm business. Some areas of change are: labor laws, chemical use regulations, changes in interest rates and credit, outlook for inflation, and farm program changes.

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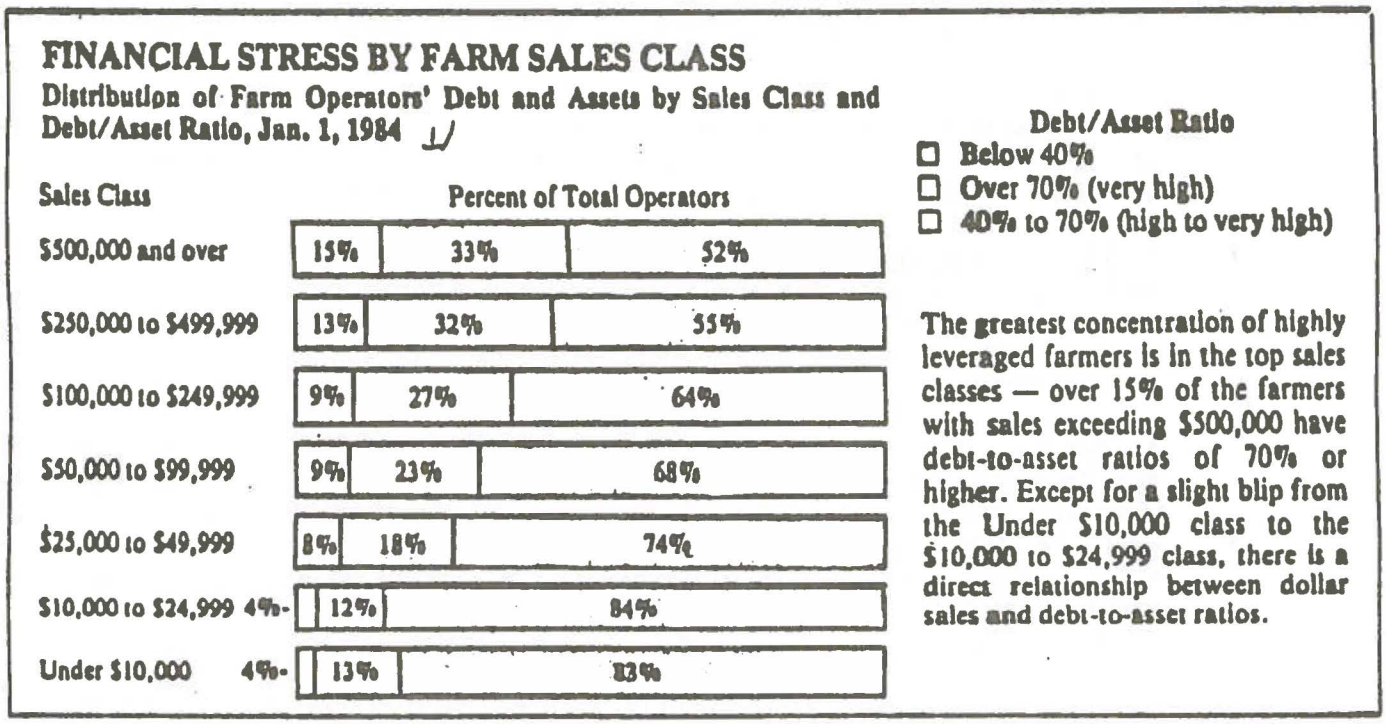
[3] The Management Difference: Future Information Needs of Commercial Farmers and Ranchers, Arthur Anderson and University of Illinois.

FIGURE 1.



1/ Agri-Finance, March 1985.

• Legal Organization. In order to transfer property, manage taxes, and provide ways for a variety of people to contribute capital, labor, and management, and be fairly rewarded for their contributions, large farm must have information about different forms of business organization.

• Farm Organization. Most managers of large farms have already decided on the enterprises with which they have a comparative advantage. They are most interested in evaluating alternative methods of producing the crops and livestock presently on the farm. In early work with large farms in Indiana, little interest was shown in workshops emphasizing the choice of crops and livestock. When the emphasis was changed to the choice of production systems for corn, soybeans, and hogs, enrollments increased.

• Intergeneration Transfer. Since most large farms are family owned and operated, a major decision area is transfer of the farm to the next generation. Transfer of physical assets and management responsibilities are important as well as is the social interaction of the families. On farms where there are no interested young family members to enter the business a plan will be required to involve non-family members or to phase out the farm business.

• Labor Management. Managers of large farms must understand how to define jobs, recruit for defined positions, choose qualified employees, train them, set pay scales, motivate workers, and evaluate employee performance. They must also be able to meet government requirements regarding safety, compensation, and withholding taxes.

• Goals. Because decisions affect not only the business but also the family, goals are especially important. Extension specialists have the perspective to help farm families identify their goals and evaluate each decision in light of family goals. In addition to making money, the goals of a family may be having more leisure time, participating in community activities, maintaining smooth working relationships among family members, and controlling risk.

A farmer recently indicated to an extension specialist that he planned to purchase an adjoining farm and asked for the judgment of the specialist regarding the purchase. By asking the farmer a series of questions the extension specialist found that the farmer was meeting his income, leisure time, and other goals. His interest in the farm stemmed from an old saying that "the farm next door might be available only once in a lifetime." But by asking questions the extension specialist helped the farmer to understand that purchase of the farm would reduce cash available for current living and reduce leisure time both of which were very important goals to the farmer.

Summary

Some Challenges for the Farm Management Extension Specialist in Working with Large Farms

Farm management extension specialists have a unique role in: (1) guiding farmers to objective analyses; (2) integrating information and methods from a variety of sources to provide background for making important farm management decisions; (3) publishing bulletins, circulars, and articles regarding management information and methods; (4) providing information about persons and agencies that are available to help fill the management support needs of farmers; (5) helping farmers and those who provide management information and counsel to view the impact of management decisions on the family as well as the farm business.

In looking to the future, the importance of farm management extension specialists to managers of large farms will continue to grow if these specialists can meet the following challenges.

(1) To be of help to large farms the extension specialist must first be "an expert", at the forefront with relevant management information and analytical methods. The specialist must be sufficiently involved with large farms to understand their needs. Specialists should be "tuned in" to changing technological, economic, and social conditions, and should determine their implications for farmers. They must conduct and/or utilize applied research. The greatest challenge is to have something useful for large farms. Farm management research must be emphasized. With tighter budgets there has been a trend toward devoting research resources to problems where grants are available. Because there are few grants in farm management research has suffered. But farmers want information from "experts". Unless extension specialists take a more active role in research they cannot be effective in serving the management needs of the large farm.

(2) To retain administrative support for working with large farms extension specialists must be prepared to explain and illustrate what they are doing for all farms including the 95% of the smaller farms that will produce less than half of agricultural production.

(3) Large farms often need in-depth management help in specialized areas thus requiring more time than can be justified by extension specialists. Therefore, the challenge of the extension specialist is to work harmoniously with farmers and guide them to a variety of public and commercial agencies while at the same time maintaining high visibility and a good image.

To meet this challenge the extension specialist must collect relevant information, be involved with both farmers and commercial agencies, hold workshops and meetings and write publications. Farm management extension specialists must know their comparative advantages and have a plan to capitalize on these advantages while

utilizing all available sources of management information and analysis.

Farmers especially need to be guided to non-extension specialists for legal arrangements, in-depth accounting and financial management, developing computer programs for record keeping and management, and specific in-depth information about design of building and equipment production systems.

(4) New information delivery system options such as video tapes, computer information banks, etc. will emerge and will provide opportunities to serve farmers more easily. But unless extension is at the forefront in these new developments it may be difficult to enter later.

Farm management extension specialists have great opportunities and exciting challenges in working with large farms in the years ahead.