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Professional Farm Management Services

- Midwest U.S.A.

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ABSTRACT

Professional Farm Management in the midwestern USA involves the management of farmland which varies in size, quality, and type of leasing agreement. Clear and continuing communication between the manager and client and the manager and operator are critical to effective management.

Marketing, managing money and people, and the selection of farm operators are among the tasks of a farm manager. Knowledge of a candidate's education, experience, financial condition, and goals are essential in the selection of a farm operator. The American Society of Farm Managers and Rural Appraisers was organized in 1929 and has assisted its members since then.

Professiona Farm Management Services

- Midwest U.S.A.

J.R.Hutchinson ,
USA

I'm very pleased to talk with you about professional farm management in the United States. Even though the core disciplines of management may not change, farming in the United States varies greatly from one part of our country to the other. The management of the production of corn, soybeans, pork and beef in the central U.S. requires different skills than the management of vineyards and nut groves in California, ranchland in Idaho, timber in Maine, or a cotton farm in Texas or Louisiana. Since the midwest is and always has been my area, so to speak, I will limit my discussion to midwestern professional farm management. I will point out some similarities in managing a midwestern farm with other kinds of operations in other parts of the country and the world.

First a few general ground rules of midwestern farm management, specifically as practiced by my company.

Our clients include investors, widows, heirs to family-owned land, pension funds, trust departments of banks, doctors, lawyers and other professional people, people who live at a distance from their properties and those who simply do not feel capable of the management responsibility.

Properties managed by our firm vary in size from 24 to 1200 acres. Most of the farms we manage range in size from 240 to 320 acres. On most of the farms the tillable acreage is 90% or more of the total acreage. Corn yield potential varies from 100 to 160 bushels per acre. Principle crops are corn, soybeans, oats, wheat and hay. We manage several farrow to finish hog operations and we feed cattle on 11 farms.

The farms we manage are operated under a crop share, livestock share, cash rent, bushel rent, or custom farm lease. The leases are annual leases with a clause for extension. Our firm uses the University of Illinois Extension lease forms.

There is considerable variation in the quality of the farms we manage. They are located on creek or river bottoms as well as upland prairie and timber land soils. In Henry County, my home county, in northwestern Illinois, 20 miles from the Mississippi River, 73 different soils have been identified. We work with tile drainage, open ditch drainage and to a limited extent with center pivot irrigation.

As an example of how midwestern land is owned and operated, recent information would indicate that 22% of Illinois land is operated by owners who farm no other property. Fifty-eight percent of the land is operated by farmers who own their own farms as well as operating rented land, and twenty percent of Illinois land is operated by farmers who own no land of their own. The number of absentee-owned farms is great. That, of course, means that opportunities for professional farm management are plentiful.

In the most recent estimate of acres managed by members of the American Society of Farm Managers and Rural Appraisers, it was determined that our members manage some 58,520,000 acres. (1) This includes 17.9% of U.S. corn acreage, 18.1%

(1) Agri Finance - November 15, 1985 - 1 Acre = 0.405 hectares

of U.S. soybean acreage, 8.6% of U.S. wheat acreage, and 12.5% of U.S. grain sorghum.

Communication with clients and operators is essential among all farm managers. Most communication with clients is in written reports while most communication with operators is by word of mouth. By clients, I mean owners--or whoever we, as farm managers, are responsible to. Narrative reports to clients normally include a budget and cash flow, a spring report which includes farm plats and pertinent crop information, a fall report with information about crop progress, operator performance, marketing plans, and finally a year-end summary. We also send quarterly financial reports which include bank statements, bills, checks, receipts and deposit slips. Those quarterly reports include a comparison of actual income and expense with budgeted income and expense. A financial report suitable for our client's income tax work is forwarded to our client shortly after year end. I might add that we encourage our clients to visit their farms so that they can see first-hand what we are accomplishing.

A budget of income and expense and cash flow, a second cash flow budget prepared on our I.B.M. computer, a comparison of budget and actual income and expense, and an end of the year financial report follow as examples.

FARM REVENUE

620.00	BUTCHERS	34,993.23
101.00	SOWS*	8,547.49
5.00	BOARS*	584.10
10.00	SHEEP	307.64
12,120.86	BUSHELS OF CORN	16,165.70
	HAY SALES	67.50
	DIVIDENDS & PATRONAGE	85.63
	ASCS PAYMENT	2,792.93
	INSURANCE LOSS PAYMENT	85.00
	INTEREST EARNED	<u>1,071.07</u>

TOTAL FARM REVENUE

\$64,700.29FARM EXPENSES

	TAXES	6,474.74
	INSURANCE	1,310.00
	MANAGEMENT	4,560.75
	REPAIRS AND MAINTENANCE	989.38
	SUPPLIES	14.04
	FERTILIZER	4,882.38
	SEED	2,294.69
	AG-CHEMICALS	2,921.38
	DRYING AND STORAGE	375.24
	MACHINE HIRE	273.24
	HOG PROTEIN & ADDITIVES	12,770.61
	VETERINARY	1,137.50
	UTILITIES	950.00
	FARM FUELS	171.57
	TRUCKING & MARKETING	1,111.42
	INTEREST-OPERATING	22.00
	BANK CHARGES	12.00
	FARM BUSINESS EXPENSE	1,120.30
	COST OF HOGS SOLD	825.00
	STRAW PURCHASED	<u>662.65</u>

FARM OPERATING EXPENSE

\$42,878.88

NET CASH INCOME (LOSS) BEFORE DEPRECIATION

\$21,821.41

INDICATES POSSIBLE CAPITAL GAINS TREATMENT. SEE SUPPORTING
INFORMATION BEGINNING ON PAGE 5 FOR DETAIL AND EXPLANATION

One of the most important decisions a farm manager will make is the selection of the farm operator. We use an application form that includes information about the applicant's age, education, previous experience, available equipment, and financial standing. We ask for references. Once an applicant is under consideration we visit the farm he is operating, talk with references he has used and others such as his veterinarian, feed supplier, and previous landlords--whether or not they are included as references.

With few exceptions our operators were born within 10 miles of the farms we lease them to operate. They have grown up with raising hogs, feeding cattle, or crop farming. We've found that their fathers are often examples of what they themselves may be in the future. Since many of our current operators are college graduates, however, using a man's father as a prototype is not as reliable a gauge as it once was.

Our younger operators, in many cases, develop their own budgets and cash flows. In some cases our operators document their operations on computer printouts. Some use farm business farm management records for reporting income and enterprise analysis. Farm business farm management records are then compared and analyzed by local fieldmen and the Agricultural Economics Department at the University of Illinois. In short, the modern young farm operator is likely to be a very able and sophisticated fellow.

Some years ago when the American Society of Farm Managers and Rural Appraisers were particularly interested in legislation concerning whether a landowner could materially participate in the operation of his farm through a farm manager, I spent considerable time talking to legislators in Washington, D.C. During those discussions I learned, to my amazement, what those legislators thought a tenant farmer was like.

They imagined that Midwestern tenant farmer to be like the by-gone share cropper in the South, with little education, no equipment to speak of, and just enough borrowed dollars to put in a crop. And he was always in debt--so they surmised.

Tenant operators in our area today may farm from 320 to 2500 acres. Despite the disastrous decline in financial positions of farmers in general over the past five years, many tenant operators will show a better financial statement than the business man on Main street in our small rural towns.

As you can understand, we are now analyzing these financial statements much closer than we did just five years ago. The date of the financial statement, the debt to asset ratios indicated, and the change since the last financial statement was prepared are of vital interest to us.

There is no completely accurate definition of a "family farm". I'm sure, however, that many of our operators consider the farm they lease their own "family farm". Except for actual ownership it fulfills many of the requirements normally included in that definition. Despite the financial crisis affecting agriculture at the present time, most of our operators are in relatively sound financial position. We monitor the financial position of most of them through their annual financial statements.

Those, then, are some of the basic elements of farm management from our perspective and experience. Let me now address some specific services--from marketing to management fees.

As you would expect, marketing is a key service of farm management. We subscribe to several marketing services, stay in touch with commodity brokers, attend local extension marketing meetings and keep an inventory of grain and livestock on hand.

Marketing livestock is considerably different than marketing grain. We market hogs and cattle when they're ready. That date is predetermined by the breeding dates of sows and the date cattle are placed on feed. Our cattle are sold on a grade and yield basis while hogs are sold through an auction or local order buyers. We make it a point to keep posted on what the local markets are doing.

Government programs to reduce supplies while giving support to prices have made the marketing of grain in the last two years much easier if the farm participated in the program and there was storage on the farm. With free grain we have used forward selling and the futures markets in addition to cash sales at both local and river markets. We hedge some livestock sales but that does not make up a major portion of our selling strategy.

Increased production is a constant challenge to a farm manager. Comparing yields, rate of gain, pigs saved per litter, calf crop percentage, and return on investment are only a few of the comparisons made. County test plots, farm to farm comparisons, Farm Business Farm Management records are tools

and standards used for these comparisons.

We have encouraged conservation tillage and work with a number of farms where a part of the farm is no-tilled.

The management of money is another critical aspect of our service. We often are responsible for large sums of money which are temporarily available in the account. These funds are deposited in NOW Accounts, Money Market Funds, and in some cases, Certificates of Deposit. We monitor our account balances weekly. We believe the interest income realized on those funds is equally important to our client as is the income from the sale of grain or livestock. So in this sense the farm manager serves as banker and asset manager. It's all part of our new expanded role.

Knowing how to work with people to achieve their goals is a constant challenge. Knowledge, experience, honesty, timing, and enthusiasm all describe the person who is successful in managing. A good manager must know how to communicate and motivate. The ability to put oneself in another man's position is extremely important.

As I mentioned earlier, the operators of the farms we manage are not "hired men". They are business men in their own right. They are highly qualified individuals whom we have carefully chosen to operate those farms. Our job in working with such an individual is to be a partner with him while representing our client's short-term and long-range goals. We must understand what our operators and our clients are trying to accomplish. The manager must remember that the relationship with the client is an employer-employee relationship, while the relationship of the manager and the operator is one of working partners. By working partners I refer to the organizational aspect rather than the legal aspect of the arrangement.

There is no cut and dried method of determining fees. Ours vary with the type of leasing arrangement, the goals of our clients, the size of the farm, and the services desired by our client. Our contracts stipulate that we will be paid a base fee on a quarterly basis or a percentage of the gross income at the end of the year, or in the case of a livestock operation, a percentage of the adjusted gross income--which ever is greater. The percentage applied to the income will range from 6% to 8%. Adjustments to gross income on livestock operations include the cost of livestock purchased and the cost of extra feed, not including protein.

Finally, I'd like to comment on farm management firms, on the Society itself, and on the future of our profession--at least as I see it.

Farm management companies vary greatly in size and type of ownership. People managing farms may be self-employed as individual entrepreneurs, or part owners of a business. They might be employed as a part of a team which might include as many as 60 to 70 managers and manage as many as 3600 farms--including 970,000 acres--as with the Farmers National Company, our largest member company.

Hutchinson Farm Management is owned by 5 of its employees. Although farm management is our principle source of income, we are active in rural appraisal work as well as agricultural consultation and agriculture real estate purchase and sale. All five members of our firm are Accredited members of the American Society of Farm Managers and Rural Appraisers. Besides the principals, our office staff includes an office manager and five secretaries. We use a Burroughs B25 computer for keeping records. We use an I.B.M. personal computer for "what if" type questions. There are quite a number of companies in the mid-west similar to Hutchinson Farm Management.

The American Society of Farm Managers and Rural Appraisers is our professional organization to help members improve their level of service through the establishment of high professional standards, and continuing education programs. The organization was started in 1929 as the American Society of Farm Managers. In 1931 the name was changed to the American Society of Farm Managers and Rural Appraisers. The first meetings of the organization were held at the University of Illinois. D. Howard Doane, Nile Kinnick, H.C.M. Case, and Deane Robert Hudelson are a few of the names associated with the early growth of both the Illinois Society and the American Society of Farm Managers and Rural Appraisers.

As you know, the period from 1929 through the 1930's was a depression era. Our present agricultural economy is a reminder, if we need one, that history often repeats itself.

Since its organization the American Society of Farm Managers has grown to a membership of 3700 in 46 states, Canada and several foreign countries. The Society has sponsored intensive educational programs in rural appraising and farm management.

The Society awards two designations--Accredited Farm Manager and Accredited Rural Appraiser--to experienced professionals and academic members who have met high educational, ethical, and performance standards in their respective fields. Accredited titles are awarded only after passing a comprehensive written and oral examination conducted by other accredited members of the American Society. A continuing education requirement for Accredited and Professional members has been instituted just this year.

The work of the American Society of Farm Managers and Rural Appraisers is carried out by an 11-person executive committee and 18 other operating committees. The Journal published semi-annually has been sent to our membership since 1937. The organization supports and is in turn supported by 46 state Chapters.

In closing, a word about our future. As was the situation when professional farm management was started, we are again in the United States experiencing reduced farm income. As farm income has declined with a deteriorating agricultural economy, "survival" has become the objective of many people in midwestern agriculture. Farm managers, like farmers, have taken a cautious and conservative attitude. Protecting a client's assets while trying to maintain a maximum return on investment has tested most managers' skills. Because of the special abilities of the managers farm management grew rapidly during the "Great Depression". Today, farm managers are again being called upon to exercise those same qualities.

In addition to assuming the management of farms in receivership, members of our firm have appeared as expert witnesses to the feasibility of plans proposed in Chapter 11 bankruptcy. We have also appeared in court as expert witnesses to the valuation of rural properties to be included in Chapter 11 plans. Fortunately, not all of our business results from adverse conditions. Far more of our new business comes because of new investment in midwestern agriculture by absentee owners. These investors believe land values have now bottomed--or are very close to it.

Agri-Finance, in their 6th annual comparison of farm management companies, indicated that the acreage managed by the 100 largest U.S. farm management companies increased by 15% in 1985. I would anticipate continuing sizable growth in 1986.

We're interested in realizing our share of that new business. There's no better advertisement for our firm than a satisfied client that we can use as a reference but we also do several other things to try to make our name better known to potential clients.

We participate in the activities of our Illinois Society and American Society.

We write for Prairie Farmer Magazine and have helped conduct J.C. Outstanding Young Farmer contests.

We send semi-annual newsletters to potential clients in several counties surrounding Geneseo where we are based.

Agriculture and agribusiness in the U.S. are going through one of the most trying changes in their long history. Farm operators and farm managers who can apply new technology to their work while retaining good judgement gained from experience will manage with these changes to the enhancement of everyone involved. Farm managers have prepared themselves for change and growth. Personally, I think that experience gained in today's trying times will be invaluable in fashioning a better future. Man, it is said, is born to adversity. Well, we have come to know what adversity is all about. And believe me, we in our enterprise are the better for it.

The opportunities in farm management will increase. For those of us who are prepared, the challenge associated with those new opportunities should certainly hold our interest.