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FARM MANAGEMENT - BACK TO BASICS

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ABSTRACT

Two farm management surveys showed that both farm advisers and farmers believe in similar management concepts. However, there were large differences between how these concepts were made available by the advisers and how the farmers wanted them presented. The challenge therefore, was to develop and promote a simple management package, encompassing those concepts, which could be used by the majority of farmers. Surveys of farmers and farm advisers, reviews of relevant farm management systems and research and trials involving farmers resulted in a simple, non-computerised management package. The success of this package, called **Farm Biz**, has led to a fully revised second edition being produced within 12 months of its initial launch.

INTRODUCTION

During the first half of the 1980s, the traditional wheat/sheep farmer in North-west Victoria in Australia suffered from a series of droughts, increasing farm costs and a decrease in farm product prices (1). This caused the average farm debt, of those in debt, to more than double over the period from 1981 to 1985 (2). This situation forced many farmers to re-evaluate and improve their on-farm decision making to maintain long term viability. Staff from the Victorian Department of Agriculture recognised the role they could play in facilitating the necessary improvement in farmer decision making.

A conference on "The future of dryland agriculture in North-west Victoria and the role of the Department" was held 1986. It was attended by accountants, bankers, consultants, farmers, Department of Agriculture staff and representatives from various other organisations involved with dryland agriculture (3). As a result a farm financial management course was designed and offered to farmers and funds were made available to develop a farm management system.

METHODS

In October 1987 a three year farm management project began which aimed to improve the business management decisions made by the majority of farmers. The development, evaluation and continued promotion of an appropriate farm management system was the principal means of achieving this aim.

Developing the information base for the farm management system involved two surveys and two reviews (Fig 1). One survey was of farm management advisers from Australasia and the other was of dryland farmers from North-west Victoria. The purpose of these surveys was to obtain information on farm management from both theoretical and practical viewpoints, respectively. The reviews provided information on the farm management systems that were available and research being done into farm management.

The results of these data gathering activities were used to develop a draft version of a farm management system encompassing the key elements identified. A total of 133 farmers and farm advisers were then given this draft version of the management system on a trial basis and their comments were incorporated into the final product. On-going promotion, including advertising and formal training courses will hopefully ensure the project continues to fulfil its aim.

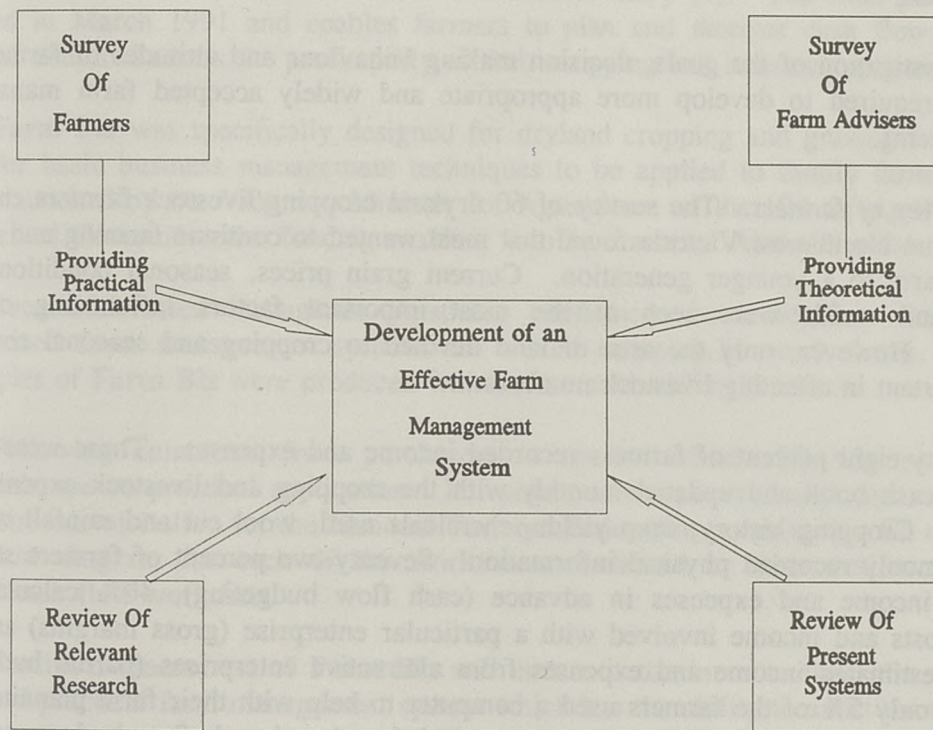


Figure 1. Farm Management Project Development

RESULTS AND DISCUSSION

Survey of farm advisers. The Australasia wide survey of farm advisers found that cash flow budgeting and gross margins were considered the most important components of effective farm management. Profitability calculations, physical and financial record keeping were also considered important.

The majority of the farm advisers were familiar with various farm management systems but, unfortunately, most of them were not aware of any studies which indicated what farmers required from a management system. This indicated that the majority of the farm management systems had been developed with little or no market research into what farmers actually required. The most common characteristics of the 53 management systems cited were enterprise analysis, cash flow analysis and physical record keeping while asset and liability monitoring occurred less often. The 13 different farmer studies mentioned varied considerably in their purpose and content but generally highlighted the following points:

- The level of financial management skills among farmers was relatively low when compared to managers in other industries and there was scope for improvement;
- Most farmers need only basic tuition in financial management and office procedure to enable them to operate more efficiently;
- Increased financial management skills were required by farmers to deal with the effects of the "cost-price squeeze" on their farm;

- Access to and use of information by farmers will become more important in the future;
- Investigation of the goals, decision making behaviour and attitudes of farmers will be required to develop more appropriate and widely accepted farm management systems.

Survey of farmers. The survey of 60 dryland cropping/livestock farmers chosen at random from North-west Victoria found that most wanted to continue farming and to hand over the farm to a younger generation. Current grain prices, seasonal conditions, crop diseases and weeds were seen as the most important factors influencing cropping programs. However, only the area of land devoted to cropping and seasonal conditions were important in affecting livestock numbers.

Sixty-eight percent of farmers recorded income and expenses. These were usually kept in a cash book and updated monthly with the cropping and livestock expenses kept separated. Cropping history, crop yields, chemicals used, wool cut and rainfall were the most commonly recorded physical information. Seventy-two percent of farmers said they estimated income and expenses in advance (cash flow budgeting), 40% calculated the variable costs and income involved with a particular enterprise (gross margins) and 42% said they estimated income and expenses from alternative enterprises (partial budgeting). However, only 5% of the farmers used a computer to help with their farm planning. The majority of farmers (55%) indicated they regularly produced cash flow budgets and most of these were done on forms supplied by banks. Unfortunately, in the majority of cases the actual figures were only compared to the budget figures on a yearly basis, indicating they were not being used as a management tool. Also, most farmers had received no education since leaving high school, had not attended short courses and were middle aged or older. As a result their contact with the more recently developed management technologies, such as computers, was minimal.

Finally, the factors considered most important in indicating how well the farm was going were: crop yield, price received for grain produced, returns from the whole farm and the operating profit.

Implications. The surveys showed that both farm advisers and farmers believed in similar management concepts. For example, estimating income and expenses in advance (cash flow budgeting), financial analysis of different enterprise options (gross margins), financial record keeping, physical record keeping and calculating the profitability of the whole farm were regarded as important by both groups.

However, there were large differences between how these concepts were made available to farmers by advisers and how farmers wanted them presented. For example, 76% of the farm management systems known to farm management advisers were computerised, yet only five percent of farmers used computers.

This showed that the challenge was not necessarily to convince farmers of the benefits of using these management concepts, but rather to develop a simple management package encompassing them.

Farm Biz. A draft version of a simple, non-computerised management package (based on worksheets in a ring folder) was developed and underwent final testing involving 133 farmers and farm advisers. This resulted in many practical modifications

and additions, for example the inclusion of a tractor diary (4). The final package was published in March 1991 and enables farmers to plan and monitor cash flow, calculate profit and debt and assess the profitability of their cropping and livestock options (5).

Farm Biz was specifically designed for dryland cropping and grazing farmers and allows for basic business management techniques to be applied to family farms. It was initially launched by the Victorian Minister for Agriculture on the 12th of April 1991 and also received Commonwealth funding enabling it to be marketed Australia wide.

Successful sales throughout Australia confirmed the need for simple, non-computerised farm management systems for mixed cropping/livestock farms. Initially 1000 copies of **Farm Biz** were produced which were sold within 12 months.

Following comments from purchasers, a revised edition (6) was produced to further enhance its practical application. It features a new cover design, an introduction by the Director of Policy for the National Farmers Federation, an easier to fill out tractor diary, flow diagram for each of the worksheets contained in each section and better designed cash flow worksheet.

Continual assessment of **Farm Biz** will ensure it continues to fulfil the need for a simple and practical farm management system which has the ability to assist many farmers to improve their business management decisions.

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