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## Entering Farming in the 1990's

So you think you want to farm? You are in good company. Each year, many people consider entering farming on the basis of a full-time or part-time occupation, or primarily to achieve a preferred way of life.

These prospective farmers or farm employees have a variety of backgrounds. Some are just beginning their careers while others have had substantial experience in a farm or nonfarm occupation. Some have had no farming experience. Some choose farming as a way of life or as a way out of their present lifestyle. Others view farming as an alternative occupation—either as a farm operator, supervisor, or employee. To make a success of a farming venture, it is essential to first analyze personal goals and set a strategy to achieve them.

### Farming in the Mid-1980's

An overview of the sizes and types of American farms can help the beginning farmer target a strategy for entering farming. U.S. farms vary greatly in size and type. In 1985, 72 percent of

U.S. farms were best characterized as a "rural residence" or "small part-time" farm. These farms produced only 10 percent of the total gross farm income, with off-farm income being used to cover \$1,000 to \$2,000 of average yearly losses of these farms.

"Dual-career" farming operations represented 14 percent of farms, and produced about 16 percent of gross farm income. For this group, off-farm income represented 61 percent of the net income of the typical family. Most of these farms would be classed as part-time farms, although those with gross incomes above \$75,000 could actually have been considered small, full-time farms.

Full-time commercial farms ranged from moderate-sized, sole proprietorships to "super firms" employing a number of people and involving millions of dollars of capital. Although full-time commercial farms represented only about 14 percent of U.S. farms in 1985, they produced 74 percent of that year's gross farm income. And while off-farm income per full-time commer-

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## Selected Characteristics of U.S. Farms, by Farm Size, 1985

	Part-time farms		Full-time commercial farms			
	Rural residence	Small part-time	Dual career	Moderate size	Large size	Super firms
Gross farm income						
	Under \$10,000	\$10,000/39,999	\$40,000/99,999	\$100,000/249,000	\$250,000/499,999	\$500,000 and over
No. of farms (000)	1,164	473	323	221	66	27
Percentage of total farms	51.2	20.8	14.2	9.7	2.9	1.2
Percentage of total gross	2.8	7.5	15.7	25.2	16.6	32.2
Net farm income per farm (\$)	-1,878	-1,017	6,566	36,660	99,661	640,010
Off-farm income per farm (\$)	22,091	16,625	10,347	10,551	11,447	15,448
Percentage of income from off-farm sources	109	106	61	22	10	2

Source: *Economic Indicators of the Farm Sector, National Financial Summary, 1985, Economic Research Service, USDA, ECIFS 5-2*. The names used to describe farms in these various income categories are those of the authors of this chapter.

cial farm was about the same as for part-time and dual-career farms, this supplemental income represented only 2 to 22 percent of full-time commercial farms' total net incomes.

Commercial farm earnings derived by farmers from a similar resource base also vary greatly. For example, in a group of southwest Minnesota farms, those with the highest 20 percent of earnings had labor and management earnings of \$109,483 in 1988, while the lowest 20 percent had labor and management earnings of -\$6,598. U.S. farms also are diverse regionally in the products they produce—from New England's dairy farms to the Midwest's corn and soybean farms to the Mountain States' specialized livestock ranches to the West Coast's specialized fruit and vegetable farms.

### Entering Farming Part-Time

In 1985, about 85 percent of the 2.3 million farms in the United States could

be classified as part-time operations. People operating these farms entered farming while maintaining their employment in the nonfarm sector—or vice versa.

Many people enter part-time farming primarily to provide themselves and their families with an alternative way of life. Their farming enterprise is usually small, possibly inefficient, and often operated at an economic loss. The farm family's willingness and ability to absorb these losses often determine whether or not their part-time farm will remain operable. Over time, these operations may disappear or make changes to operate more efficiently.

Other part-time farmers enter farming on a more established, dual-career basis, combining a substantial farming enterprise and a nonfarm job. If organized and operated properly, such a farm enterprise can add to family net income and possibly net worth. Successful part-time farmers often have enterprises that

give high returns to scarce labor. These enterprises must be managed efficiently, and overhead expenses (such as machinery costs) must be kept in bounds. This dual-career approach may be maintained over a considerable period of time.

Combining farming and off-farm employment may be a logical strategy. However, if you are using this strategy as a method of gaining entry into full-time farming, you must work at becoming a good manager and at becoming known in the community as a good farmer. Managing finances to build net worth demonstrates to creditors an ability to manage money effectively. Recognize that taking the step to full-time farming may never happen. Often part-time farmers become accustomed to good family living and hesitate to give up the security they have acquired in their nonfarm jobs.

### **Working as an Employee**

When considering full-time farming as a career, you usually think of establishing your own farm operation. But with the wide range of sizes of commercial farm businesses today, keep in mind that there will be increased opportunities to enter farming as an employee of an established operation. Depending on training and experience, it may be feasible to enter farming as a semiskilled or skilled employee, a supervisor, or even a resident manager. Any of these routes may become permanent employment in a large, existing operation, or lead to establishing your own farming operation.

Entry into farming as an employee may be particularly appealing to those having little farming experience, since they can learn by becoming an employee of a large, established farm operation. It may be necessary to first start as a semiskilled worker and

progress to positions of increasing responsibility, such as a herder for a livestock component of a business, and eventually the overall manager of the entire farm business—under the watchful eye of the owner(s).

An advantage of being an employee of such a business is the experience gained in using the latest farm technology, marketing techniques, and financial strategies in farming. Therefore, it is important to choose an operation that is up-to-date and uses current methods.

The role of supervisor or resident manager will be so challenging and rewarding for some that they may decide to remain in this role throughout their farming careers. But for others, the questions will eventually arise as to when to resign and how best to establish their own farm businesses.

One approach is to accumulate sufficient funds to acquire a smaller established farming operation when the opportunity arises. A second alternative is to use a phase-in approach—that is, to use accumulated savings to purchase land or key machinery and lease it to the operation you manage, until it is feasible to start your own operation. The advantage of this approach is that if the value of assets such as land continues to rise, it may be possible to acquire some of these resources earlier at a lower price than if purchases were delayed until you had saved enough money to begin a new operation.

Proper compensation is an important issue that must be faced to successfully start a career in farming as an employee, supervisor, or resident manager. An individual with managerial capabilities should expect to receive more compensation than one who is a semiskilled worker charged with carrying out day-to-day farming activities. If the incentive payments are made in cash, prob-



*So you are thinking about entering farming? This scene reflects a passing of the trade from one set of hands to a younger set of hands. (USDA photo by James Karales, 055-30-5)*

lems usually are not encountered when the manager uses the cash to start his or her own operation. However, in some cases the incentive payment is not made in cash. Instead, it is allocated as shares of ownership in the farming operation. In this situation, you need a prearranged equitable agreement for liquidating shares of ownership when you want to begin your own farm.

### **Becoming a Partner**

Quite often, a prospective farmer has an opportunity to become a co-owner of a moderate-sized to large farming unit that is fully equipped and ready to farm. This may involve a family operation or unrelated situation, and may offer even more opportunity for independent decisionmaking and eventual ownership and control. In this case, take care to ensure that the unit is large enough to offer a reasonable chance at

financial progress, and that there will be an opportunity to buy into the operation—at least into the machinery, equipment, and breeding stock. If, after a short testing period, it appears that this is a good business unit and the parties cooperate well, develop longer range objectives and plans for business development and partial transfer to the new partner.

### **Full-Time Farming on Your Own**

The third alternative is to “do it on your own”—to put all (or most) of the resources together with the assistance of a creditor or landlord. Under today’s conditions, this option is generally feasible only for the exceptional manager with considerable equity.

For many, the more realistic way to start is to piggy-back on someone else’s operation in a joint venture. This may

be an outgrowth of the preparation stage, where you have worked for a good farmer who is willing to help you get started on your own. One such piggy-back arrangement might involve an exchange of labor for machinery or even for the rental of some land. It may involve starting on a part-time basis and becoming acquainted with a neighboring farmer who is willing to share equipment and management know-how and get you started in a live-stock operation.

**Fundamentals.** The following are some fundamentals that a young farmer starting mostly on his or her own should keep in mind when developing a farm business:

*Most successful business people did not start at the top.*

- Do not try to get too big too soon. Develop your unit over time, keeping its size consistent with your management skills and financial position.

- Establish a good track record showing your ability to generate and manage income.

- Have long-term goals that you are striving for with plans for attaining them.

*Most beginning farmers have adequate labor but limited capital.*

- Use your scarce capital to purchase items that bring high returns, such as fertilizer.

- Piggy-back with an established operator, when possible, to reduce pressure for buying equipment and to have access to management help.

- Substitute labor for capital when possible. Use smaller equipment and existing buildings where feasible.

- When possible, select labor-intensive enterprises to make fuller, year-round use of labor supply, for example, a dairy or hog operation.

- Gain control of resources in ways that will give good returns and make effective use of leverage, yet protect the liquidity position of your business, such as crop share rental of land.

- Minimize cash-flow demands, as well as risk of large losses.

- Manage risks carefully. Employ insurance and risk reducing marketing strategies, and consider diversified operations.

*Over time, capital availability will depend on your management capability.*

- Establish a good production and financial record. Do not try to grow too fast.

- Spend time becoming a better manager; develop your production, marketing, and financial skills.

- Secure management help when possible—from an Extension agent, adult vocational agricultural course, creditor, professional manager, or good farmer (see Section VII, “Management Services: Resources You Can Tap”).

*Keep fully employed.*

- While the unit is being developed, full employment may require off-farm work.

*Keep family living costs in bounds.*

- Usually the starting farm family must sacrifice its standard of living to a substantial degree to achieve financial progress.