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Farm Business Management Associations Provide Decisionmaking Help

Today, more than ever, farmers need sound help with management decisions. They also need access to financial data retrieval systems that provide information required for farm decisionmaking. They can obtain this assistance at a relatively small cost by joining a farm business management association.

Many States have these associations, and farmers who participate in them report that they receive valuable benefits from association membership. In Illinois, where the first formal association was organized in 1924, there are now over 7,000 members of farm business management associations.

Strength in Numbers

A farm business management association is a group of farmers who organize into a small cooperative and assess themselves fees to secure the services of a farm management specialist (sometimes called a fieldman because of the large amount of time spent in on-farm visits with association members).

The farm management specialist assists them in gaining greater control over their farm businesses and a better understanding of their businesses through objective analysis. This is usually the first step toward taking actions to increase profitability.

The associations' major functions include helping members to make major management decisions and use appropriate technologies to make successful decisions and increase farm profits. In the process, the farmer increases his or her business management skills.

In most cases, associations are organized as nonprofit corporations in conjunction with the Cooperative Extension Services of State land-grant universities. Farm members control each association and elect a board of directors to carry out association policies, develop budgets, and establish and collect membership fees. State Extension Services often help associations get started, organize, and secure start-up funds. Once an association is securely established, membership fees usually

George J. Young, Associate Professor and Extension Economist-Farm Business Management, Auburn University, Auburn, AL, and Buel F. Lanpher, Program Leader-Farm Management, Extension Service, USDA

cover a large share of operating costs. However, the Extension Service often continues to provide limited funding.

The relationship between associations and State Extension Services benefits the entire farming community by providing valuable farm record data for use in Extension programs and agricultural education and research. Association members often make valuable contributions to other Extension and research programs by assuming leadership roles in these programs and participating in demonstration farm activities.

Recordkeeping

One of the most important benefits of belonging to a farm business management association is the help members receive in keeping complete, accurate production and financial records. Members are encouraged to keep records for the entire business, not just those needed for tax purposes. Farm records may be kept in a handwritten record book, an on-farm computer, or an association-owned computer.

The records cover cash income and expenses as well as inventory data on the quantity and value of feed, crops, and livestock at the beginning and end of each year. The records also include an inventory and utilization record of all farmland (owned and rented); crop production records; livestock birth and death records; and numbers and weights sold, purchased, and consumed.

Balance sheets are prepared to account for all inventory, purchases, sales, production, and on-farm uses. Asset values and liabilities are recorded, as well as accounts payable, accounts receivable, and prepaid expenses. (See Part III, Chapter 1 on recordkeeping.)

Cash-Flow Analysis

Once all monthly transactions are recorded, the farmer can generate reports using written records or, if available, a computer. The farmer compares the actual cash-flow of income and expenses with the projected cash-flow. Cash-flow analysis is a basic management tool that is taught and monitored by the association's farm management specialist. At year's end, the detailed records are summarized, and both individual and comparative analysis reports are prepared. (See Part III, Chapters 3-7 on budgeting, accounting, and financial analysis.) These reports are particularly helpful in:

- Measuring the performance of the farm business,
- Comparing the performance of one farm with that of similar farm businesses,
- Determining what can be done to improve the future performance of the farm business.

Although data from individual farms are confidential, association members pool information from their farms with that of similar farms to generate comparative reports. The comparative reports usually include:

- Accrual basis profit/loss statements,
- Sources and uses of funds statements,
- Beginning and end-of-year net worth statements,
- Financial ratios and changes in net worth reconciled to the profit/loss statement,
- Calculations on returns to unpaid family and operator labor, interest earned on equity capital, and management returns,

- Rate earned on the farm investment.

Other reports cover information on individual farms' crop and livestock enterprises, including costs and returns per unit of production and a wide range of enterprise efficiency factors.

The individual and comparative reports provide a data base for assessing the farm's current financial status and identifying the farm's strengths and weaknesses.

The farm management specialist assists each farmer in preparing cash-flow budgets and projecting the impact of decisions concerning liquidity, solvency, net worth, and profitability. For tax purposes, farm records are used to prepare cash or accrual basis Schedule F's, detailed depreciation schedules, depreciation schedule summaries, investment credit recapture forms, Form 4797's, Schedule SE's, and so forth.

Farm Management Specialist's Role

The farm management specialist plays a key role in the functioning of the association and in assisting individual members. The specialist, who is professionally trained and experienced in farm management, meets with each member four to six times a year and holds additional conferences if special needs arise. The specialist reviews the farm's business records for completeness and accuracy during each meeting.

The specialist's most important contribution is helping the farmer use those records to assess the farm's current status in relation to past performance and helping the farmer plan for the future. The specialist does not make decisions for the farmer, but he or she helps the farmer see the situation more clearly and explore the likely consequences of available alternatives.

Microcomputers. In recent years, specialists have made extensive use of microcomputers to explore the many "what if" questions that farmers have; for example, what would be the impact of investing in new machinery or livestock. Individual farm business records and documented efficiency measures are helpful in analyzing the "what if" questions. (See Part III, Chapters 2, 8, 9, and 12 on using computers in farm management.)

Assessing Strengths and Weaknesses. Association members can discuss their management opportunities and problems in a confidential manner with an experienced person who understands their situations. Working with the farm management specialist, farmers discover their strong and weak points and learn how to build on their strengths and eliminate or minimize their weaknesses. For example, the specialist may use the individual and comparative reports to help a farmer recognize that the farm's machinery costs are too high and to implement corrective actions.

Road Map

Participating in a farm management association is like using a road map. The farmer sees where his or her business stands, determines the farm's short- and long-term destination, and develops routes or strategies for reaching the destination. By monitoring the business on a regular basis, the farmer can see if detours are needed. The issues tend to be similar from farm to farm, but the solutions are different for each farm—because each has different land, labor, capital, and management resources.

The following is a list of some of the management functions for which farm management specialists can provide assistance:

- Establishing farm and family goals,
- Deciding what to produce, and where and when to produce it,
- Deciding production methods and use of inputs,
- Determining land use based on productivity potential, fertility levels, tillage practices, conservation needs, regulations, and other constraints,
- Making decisions about machinery and buildings based on available labor and capital requirements (this includes decisions about whether to purchase as opposed to renting, leasing, or hiring—and from whom—as well as financing issues),
- Deciding on scale of production based on the farm's internal cost and return structure, the degree of diversification, and management capabilities,
- Making marketing decisions that involve the open market, contracting, hedging, options, selling direct to buyer or end user, delivery points, quality of product, and degree of integration,
- Forecasting future prices for farm products and inputs,
- Making financial management decisions involving acquisition of funds, quantity, terms, sources, equity-liquidity positions, repayment ability, time horizons, cash-flows, profitability of alternatives, and forecasting future financial needs due to depreciation of assets, expansion or contraction, and changing technology,
- Keeping production and business records by enterprise and ownership unit as a data base for decisionmaking,
- Preparing financial statements, business analysis reports, depreciation schedules, and employment tax records;

and managing income taxes, alternative minimum taxes, and other taxes.

Your County Extension Agent or State Extension Farm Management Specialist can help you become involved with the association in your area. If there is no association nearby, the Extension Service can help you and other area farmers start one.

Starting a Farm Business Management Association

Starting an association is a large undertaking, but the payoff is worth the effort. The following guidelines for starting an association are based on the experiences of four States that began associations in the 1980's: Alabama (1981) and three States that followed in its footsteps—New Mexico (1984), South Carolina (1987), and Georgia (1989). This approach has five basic elements:

- A core group of 25-35 progressive, innovative farmers who are committed to recruiting other members; an association can serve 50-70 participants for each farm management specialist employed.
- Supportive County Extension Agents who are willing to help the farmers establish an association. Extension Agents must participate in informational meetings, produce media releases, and, most important, make one-on-one contact with potential members. The agents play a vital role in establishing the associations because they know the farmers in their counties and can help identify leaders. They assist in selecting an informal steering committee to work with the State Extension Farm Management Specialists to promote the association and enroll charter members.
- State Extension Farm Management Specialists who understand how asso-

ciations can benefit farmers and the State's land-grant university. The specialists provide leadership to the steering committees and communicate with Extension and university administrators.

- State Extension and university administrators who are committed to helping the association during its formative years.

- Experienced farm management specialists who can help an association start operating effectively within a short time.

Membership Fees. As farmers are enrolled for the first year of operation, it is necessary to obtain a deposit that is applied towards the first year's fees. After charter members are enrolled (30 is a good number for the first year), the members formally organize themselves, elect a board of directors, and begin to operate as an association. Ideally, they hire an experienced farm management specialist during the enrollment period to assist in matters such as the budget, fee schedule, incorporation, and tax-exempt status.

Once the association is formally organized, the officers may approve a memorandum of agreement with the State Extension Service. The Extension Service agrees to provide substantial support during the association's formative years and limited support in the future, and to maintain the confidentiality of individual farm records. The association commits itself to enroll members without discrimination, assess and collect fees, provide funds to the Extension Service to pay the farm management specialist, and provide farm record data to the Extension Service.

Association Benefits

A 1988 report by the University of Missouri and Lincoln University found that 87 percent of farm business management association members said that they had become better managers because of their participation in association activities. More than 90 percent said their financial situation had improved as a result of association programs. Farmers felt that the association program has been particularly valuable in helping them deal with the financial problems of farming in the 1980's.