Successful Strategies for Beginning Farmers

Twelve Step Program for Beginning Farmers

1. Decide on the type of farming you want. What do you like to do? Is this compatible with your quality of life goals?
2. Consider others. What are the wishes, contributions, and demands of the people working with you?
3. Determine the skills needed. Do you have these skills? Can you learn them?
4. If you plan to farm differently or grow alternative crops, learn from other farmers what problems you may face.
5. Find land suited for your needs - consider soil type, topography. Talk to experienced farmers and crop specialists.
6. Your farm operation must fit the climate. Is it compatible with where you live? Are you willing to move?
7. Determine how much land and/or facilities and equipment you need to make it feasible.
8. How much money is needed to get started? Can you make the payments? Will it cash flow?
9. Find or create a market for what you raise. How close and what volume is needed?
10. Identify and locate support services you need - processors, supplies, services, technical assistance.
11. Build flexibility into your farm operation. If demand shifts, are you prepared to adapt?
12. Prepare an alternative plan. What are your options if your plan fails?

Beginning Farmers Need Profits to Succeed top

The price farmers receive for commodity products has failed to keep up with input and personal living expenses. As farmers leave the farm because of shrinking margins, the remaining farmers are expanding acres to increase net earnings.

This puts existing farmers in direct competition with beginning farmers. Not only must beginners compete against farmers with more equity and capital, but must do it in a low profit margin environment.

A return to the basics of profitability brings some optimism to what seems an impossible task for beginning farmers - becoming a full-time farmer. The following article from the September 2000 issue of the Center's Beginning Farmer Newsletter provides the basics of profitability, essential to any business.

Profit = Volume x Price - Costs

Farmers and ranchers have been told for decades to either get bigger or get out. They said if you were not expanding, you were dying. To some degree they were right.

In 1960 a 200-cow beef herd could generate about $20,000, more than enough to provide a good standard of living at that time (equivalent to $150,000 income today). Today, a 200-cow beef herd will still provide an income of about $20,000, but you now need almost 1500 cows to maintain a comparable standard of living.

Average Cost of Production
The problem lies in the product sold. Agriculture has been concentrating on uniform commodity production. Commodities are generic. The commodity price is usually the average cost of production. Those with higher than average costs are soon eliminated and the price again settles at the average cost of those remaining.

The commodity price has not kept up with the rate of inflation because technologies have made it possible to continue to produce at lower "real" costs. Faced with lower incomes, farmers and ranchers increase volume.

More volume means more land and equipment but fewer farmers. Each expansion also brings with it investments that increase costs. So, profits are not increasing as fast as production, and the profit margin is shrinking on each commodity unit produced.

Volume Least Effective
Of the three elements of profit, increasing volume is probably the least effective at increasing profits because each rise in volume carries with it an increase in costs, either direct or indirect. The element that gives a direct return to profit is a decrease in costs.

Each dollar saved is a dollar more on the profit side of the equation. This assumes a dollar saved will not cause a direct reduction in volume (sales). It takes almost the same amount of effort to cut a small cost as it does to cut a large cost so concentrate on the large costs first.

Price Is the Most Interesting
The last element in profit is the most interesting - price. Price is the element commodity producers have little influence over since the buyer sets both the price and the specifications.

Research by McKinsey Consulting indicates a 1% increase in price returns a 12% increase in profits, providing there is no increase in production cost or reduction in sales.

Raising the price with no reduction in sales is possible in an expanding market where demand outstrips supply. McKinsey also says a 20% increase in price is still profitable as long as sales drop less than 33%.

Profit through Your Knowledge
So how do we find these high-profit markets? The answer is knowledge. In the pre-industrial economy, wealth was directly tied to land ownership. The more land you owned, the more you could produce and the more money you made.

In the industrial economy the people who had access to capital to build factories and delivery systems captured the wealth. Today we are in a knowledge-based economy. Wealth is now flowing to those who know something others don't.

A good example of this is the organic food industry. Organic farmers are receiving a premium, not because it costs more to grow, but because these farmers have the production knowledge needed to satisfy the market.

As more farmers learn these skills, the premium will decline, but for now these farmers are receiving a return on the knowledge and skills they mastered.

Be Special - The Marketing Challenge
Trying something new is risky. Most people choose to wait until some of their neighbors try it before jumping in. This is a safe strategy but will not yield much wealth because once 40% of the farmers adopt a new technology, the technological advantage has vanished and the late comers are left with the expense but no financial return to compensate for the investment.

Unique production knowledge gives you an advantage, but anything you learn, others can learn too. A longer lasting premium can be yours if you market the product yourself. This gives you a true cost-based business where you control costs, sales, and price.

Don't compete with big established businesses. Instead focus on one that is too small for big businesses to deal with (typically less than $15 million a year in sales), yet lucrative enough to generate the wealth you need. To be lucrative, it must be special. How you make it special is the challenge to successful marketing.

Farming is a way of life treasured by many. But, it is also a business and unless it is operated as a business, this way of life will become a memory.
Source: Adapted from Allan's Ob's, Stockman Grass Farmer, August 2000

Beginning Farmer's #1 Concern
According to the April 2001 Successful Farming Magazine, a Farm Bureau survey showed that beginning farmers number one concern is finding profits (32%). Second only to availability of land and resources (20%).

Marketing Help
Marketing is not easy, but there is a lot of help available. Janet Bachman, Technical Specialist with **ATTRA** offers ten keys to successful marketing.

1. Choose something you love to do. It's hard work under the best of circumstances. If you are doing it just for the money, it's unlikely the energy, creativity, and satisfaction necessary for success will be present.
2. Create a high quality product. Quality is the single most important element that will differentiate your product from mass-produced alternatives. More and more

consumers want fresher, better tasting, healthier products than those available from large retailers.

3. Start small and grow naturally. Invest your ingenuity first, labor second, and money third. If you start small, the effort you put in and the income you generate are more likely to be matched. Let the market demand dictate your growth.
4. Make decisions based on good records. Base business decisions on what is, not on what you hope or guess the situation to be. Even if everything else is right, poor financial management and decision-making can still kill your business.
5. Follow demand-driven production. Produce what your customers want. Get to know your customers. Keep adjusting your products according to their tastes and purchases.
6. Establish a loyal customer base, preferably local. In addition to high quality and meeting customer demand, focus on your niche. Personal contact, exceeding expectations, providing steady supply, and community involvement will help secure a strong base of repeat customers.
7. Provide more than just food or a product. People are hungry for a connection to the rhythms of the earth and for a sense of community. Provide your customers with an experience of the satisfactions and spiritual rewards of your farm life. Provide them with some fun, peace, and relaxation.
8. Get the whole family or partners involved. Value-added processing takes additional energy and skills. When several family members are involved, each person can contribute his or her unique talents and specialize for efficiency.
9. Keep informed. It is important to keep informed about your customers, your competition, the laws concerning your business, and other producers like yourself.
10. Plan for the future. To be successful, you have to know where you are headed. Each path requires different courses of action. Set goals for your business and a plan of action to achieve them.

Follow the Money

When hogs were selling for as little as 9 cents a pound, pork producers questioned why little price decline was noted in the store. The answer lies in who gets the biggest share of the food dollar.

According to the National Pork Producers Council, in September of 1998, 60% of the pork food dollar went to the retailer, 19% to the packer, and only 21% to the producer. The farmer's share at the production level is too small to have much impact on the retail price. At best, a 50% drop in live hog prices would translate into a 10% decline in retail prices.

Reducing production costs create immediate benefit for farmers, but capturing a larger share of the food dollar can be more lucrative and longer lasting. However, it has long been something farmers and ranchers have shied away from. If you are satisfied with your share of the food dollar, maybe you don't need to learn marketing. But management expert Peter Drucker says, "The best way to predict the future is to create it."

Finding Capital

No matter how frugal you are, there will probably be a time when you need to borrow capital. You can get it from the bank, federal agency, or a relative or friend. No matter which source you use the following tips may help.

Show the desire. Let the lender know you are serious about farming and are willing to sacrifice to get what you want.

Be confident. Know what you want and be prepared to explain how you plan to accomplish it.

Know the language. Few bank officers today were raised on farms. Be able to explain you project in terms they understand.

Make an early visit. Meet the lender before you want money. Find out what they expect and learn what they can offer.

Develop a cash flow sheet to show how the profits will cover expenses and interest. Bankers really want to see when and how you expect to pay off the loan with interest.

Develop a plan showing where you are now and where you want to be in 1, 5, and 10 years. Have someone with more experience look at it before you present it to the lender.

Compromise. Initially, bankers may not give you all you want. Be prepared to scale back your requests.

Be responsible. Don't ask for money for things you want but don't need.

Prepare a financial statement showing how much you will contribute. It shows a knowledge of the value of property.

Know what facilities are present and what you will need. Possibly show what alterations can be made at little expense.

Understand marketing options. You may be the best farmer in the county, but if you don't know how to market you can fail.

Be computer literate. Computers can generate the schedules and projection sheets bankers like and do the bookkeeping too.

Have non-farm income. Lenders like to see this. It means all the living expenses need not come from the farm profits.

Expect to contribute. Bankers normally require 25% down or someone to co-sign. Make arrangements.

Farming is a way of life and a business. Getting a loan is a business deal. Treat it like a business. Rehearse your proposal. If you can't get your message across, why should anyone else invest in you?

Cutting Costs, Reducing Inputs

Every farm needs inputs. The type and source of those inputs can make the difference between profit and loss, soil enhancement or degradation, continued reliance on inputs or sustainability. The following article describes some of the differences.

Renewable or Purchased Inputs

Every cropping system needs inputs. Inputs can be supplied either naturally or with dollars. Where these inputs come from can determine how profitable the farm is. Lets investigate this a little and consider these crop essentials. Crops need sunlight, water, nutrients, labor, machinery, pest control, and management.

With the exception of greenhouses, most plants grow with the energy of sunlight. It is free and the use of sun lamps is far too expensive in regular crop situations.

Most of the world relies on free moisture from nature with rainwater and snowmelt. Rain is supplemented in some areas of inadequate or unreliable rainfall with irrigation systems requiring initial capital outlays, operating costs and maintenance. The feasibility of irrigation depends on the availability of underground water, the value of the crop, and the amount of extra water needed. Farming practices that encourage water infiltration and eliminate run off make better use of the rain that falls and may eliminate the need for costly irrigation systems.

In the past, nutrients were furnished naturally through plant decay and animal manure. As cropping systems intensified, nature could not provide nutrients at the level needed to maintain successive high use crops. Artificial petroleum derived nutrients were purchased at a reasonable cost to supplement nature. Dependence on purchased inputs has increased along with the price to where profit margins are decreasing.

Natural options to reduce nutrient purchases include growing crops that provide nutrients for succeeding crops (corn/soybean rotation), growing crops with lower nutrient requirements (small grain and grass), and creating a soil atmosphere that allows naturally occurring bacteria to fix nutrients from the air. Curbing yield expectations to realistic levels would remove the incentive to apply high levels of purchased nutrients.

It takes work to grow a crop. Someone has to prepare the field, plant the crop, care for it and harvest it. If that labor can be supplied by single operators or family labor there is little cost to recover. Farm acreages have increased in size to where outside labor is needed. Planning a cropping system that demands less labor or spreads the labor needs over the growing season eliminates the need for much outside help.

Machinery is needed to prepare the soil, and plant and harvest the crop. If the machinery is replaced often, less money remains to provide a profit. Some crops require more

expensive machinery than others.

All crops are susceptible to weed and insect pests. The conventional wisdom is to buy chemicals to control the pests. An alternative practice is to design a crop rotation that interrupts both the weed and insect cycles thus eliminating the need for costly chemicals.

The most important crop essential is management. Again consultants can be hired to supply technical help or the farmer can do it himself. No system is totally purchased or raised essentials, but are a combination of each. Management decides how each of these crop essentials are to be provided according to the resources available.

The farmer is the one who can provide the management to decide which crops to grow, which are needed most, and how they fit with each other, his or her capital situation, labor, and machinery resources, and mainly how it fits with the life s/he wants to live on the farm.
Adapted from "Cropping Systems Based on Farm-derived, Renewable Resources" by Charles A. Francis and James W. King, 1988.

Reduce Outside Inputs

The following story is about a farmer who made the decision to rely on the natural system rather than depend on outside inputs to make a living.

Pasture Parlor

While driving down a country road west of Bloomfield, NE you might wonder the purpose of a small barn in the middle of a pasture. It couldn't be a milk barn, could it? It has cows around it and there is a graveled lane leading up to it. But where are the house, the free-stall barn, the feed storage, and the manure pit? These are the things every dairy farm needs. Right? Not exactly.

Cows Do the Work

Yes, this is a dairy operation. It belongs to Kelly and Cindy Bruns. They live in a house over a mile away. Instead of bringing the cows to the barn, the Bruns built the barn where the cows are - in the pasture. Instead of bringing feed to the cows, they let the cows get their own feed - in the pasture. Instead of scraping, and hauling manure, they let the cows distribute it - in the pasture. Instead of tilling, planting and harvesting crops to be processed for cow feed, the Bruns just let it grow - in the pasture.

No, this is not your normal milking facility, at least not for this country. It is a New Zealand style system the Bruns build last winter to increase their herd size. Kelly and his brother Kirk were milking in a conventional system just a half-mile away. They needed more income so their wives would not have to work off the farm and they could be more involved in the farm. As Kelly said, "We wanted to raise our kids on the farm, not at the baby sitters." They also wanted to do what they knew best, milk cows.

Top Jersey Herd Deserves the Best at Least-Cost

Kirk and Kelly have milked for 11 years and have the top Jersey herd in the state. So why

would they build this new style system instead of simply expanding the old facilities? The difference is cost. Building a new conventional system costs about $3,000 per cow. Kelly invested only $35,000 in his system designed to milk more than 100 cows.

Kelly also saves on feed since there is no planting, harvesting, storing or feeding equipment needed. The grass supplies all the protein except for a few pounds of soybean hulls and about 6 pounds of grain per day. The manure disposal consists of a wheelbarrow and a shovel. Kelly scrapes together about two scoops of manure after each milking.

This is the first New Zealand barn in the state. The Bruns worked closely with state dairy officials in designing and building this Grade A facility to insure it would pass inspection when completed. It consists of an enclosed 20' X 28' milkroom and utility area with an open-air milking parlor.

The milkroom portion is much the same as any other milking facility, with coolers, washing equipment, and a bathroom, but the ten-on-a-side milking parlor has no windows or doors, only a roof. Kelly says the open-air design allows the parlor to dry faster and the sunlight to sanitize the floor, reducing the threat of bacteria. Cow put-through is maximized by the straight line enter and exit routes for the cows. Eighty cows are milked in less than an hour.

No More Winter Milking

This is a seasonal milking operation. When the grass grows the cows get milked. This winter the cows will all be dried up in preparation for the spring calving, scheduled for March. Kelly and Cindy will have the winter off from milking duty. Next spring, the cows will freshen and the natural cycle will begin again.

Relying on grass for feed can be risky. Since northeast Nebraska has had an excess of heat and a shortage of moisture this year, much of the grass is short and slow to recover. It is not yet the best pasture for dairy cows. The 160 acre pasture is now divided (with small fiberglass posts and high tensile wire) into 22 paddocks, but last fall it was a rough, overgrown CRP (land retirement) acreage.

Because of the short dried-up grass, Kelly now feeds corn to the cows. No, he doesn't chop it and haul it to the cows. The cows walk to the field and eat the standing corn. An electric fence, moved daily, is used to limit access how much corn the cows get.

Kirk, who continues to milk his cows in the confinement facility, incorporated the grazing system to feed replacement heifers. Instead of costing him a dollar a day to have someone feed his heifers, Kirk strip-grazed them though some "junk" ground (could not be farmed) that returned over $150 an acre in heifer feed savings.

Replace Capital with Knowledge

This is the Bruns' first year with a managed seasonal dairy herd. Like any other new venture, a lot of mistakes need to be made to build skill. Kelly is adopting the new

technology that replaces capital with knowledge. Knowledge isn't cheap. It requires hard work, observation, and often the learning curve drops before it begins its steep rise.

Kelly relied heavily on advice from Terry Gompert, Knox County Extension Educator in learning the skill of grass management. Unlike most new technology, these skills will yield a return on investment instead of continuing to be an interest expense.

Grazing Resources

For a beginner's manual on managed grazing (dairy or beef), contact the Cooperative Extension Publications, Room 245, 30 Murray St., Madison, Wisconsin 53715. Phone: 608-262-3346

Also, the Wisconsin School for Beginning Dairy Farmers (WSBDF) now has a way for you to learn about grass-based dairy farming from the comfort of your home. With a set of five CD's you can view the Grass-based Dairy Seminar sessions taught by grass farmers, UW and Extension faculty, and other professionals right on you home computer. The CD set costs $215 (including shipping and handling), but you will need a Pentium-class computer, 200 MHz or higher, equipped with Windows 95 or better, and a CD-ROM drive. (Sorry, not compatible with Macintosh.)

Of the graduates who attended the WSBDF school in person, 75% are actively engaged in dairy farming, and 60% have started their own dairy farm business. For more details contact Richard Cates, Lead Instructor, 608-588-2836, email: **rlcates@mhtc.net**.

Choosing the Right Farming Alternative

The collapse of farm markets, or access to them, is causing real financial and emotional stress for farm and ranch families and communities. They know clinging to unprofitable production systems means continued diminishing returns. Those unwilling or unable to hold on until things get better have two choices: quit or change.

Those who want to make things happen, rather than let things happen to them, are looking for alternatives, but change is not easy. Many operations have been raising crops and livestock the same for generations. They continued the practices they inherited, simply adding technology as needed.

The right choice is not the same for everyone. Each must choose the alternative that fits them, their family, their farm, their skills, and will satisfy their needs. *Farming Alternatives, A Guide to Evaluating the Feasibility of New Farm-Based Enterprises*, was developed to help operators make informed decisions for changes in their farming/ranching operations.

This 87-page booklet contains worksheets and instructions to help folks make informed, rational decisions. It will help answer the critical questions: Where do you want to be? What are the possibilities? Will it sell? Can it be done? Will it make money? Can you afford it? Will you make changes?

While this publication was developed in the northeastern states and has references to state agencies there, the process is the same for farmers/ranchers anywhere. To get a copy of Farming Alternatives, contact NRAES, Cooperative Extension, email: **nraes@cornell.edu**.