

Principles of Farm Management

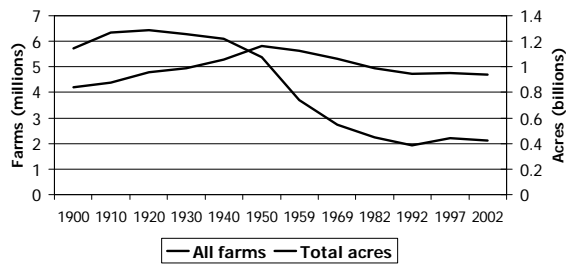
ApEc 3811
Kent Olson



What is a farm?

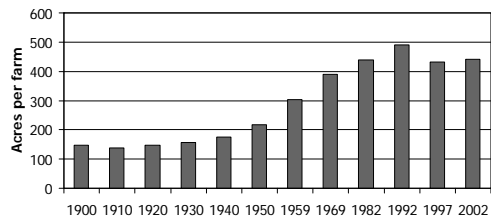
“A tract of land for producing crops or raising livestock.”
– American Heritage Dictionary

Farm numbers and acres farmed: U.S.



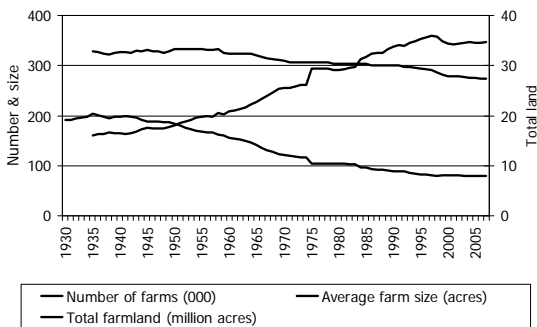
Source: USDA, ERS

Average farm size: U.S.

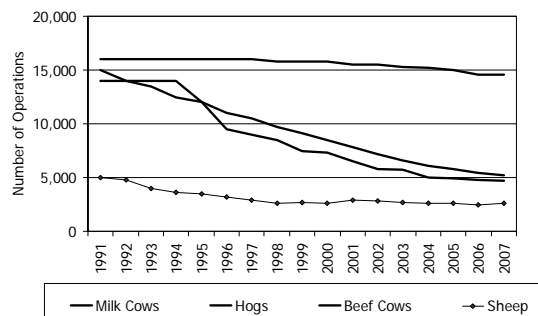


Source: USDA, ERS

Minnesota Farm Numbers, Land, & Size: 1930-2007



Minnesota Livestock Operations, 1991-2007



BACK TO OUR QUESTION:
What is a farm?

“A tract of land for producing crops or raising livestock.”

– American Heritage Dictionary

USDA's current farm definition:

Any establishment from which \$1,000 or more of agricultural products were sold *or would normally be sold* during the year.

- set by Congress

How big is \$1,000?

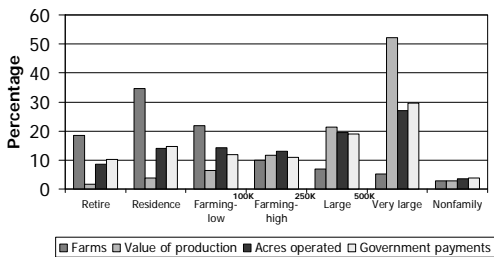
- 2.1 acres of corn at \$3 and 160 yield
- 2.5 acres of soybean at \$8 and 50 yield
- 3.0 acres of wheat at \$7.50 and 45 yield
- 0.3 milk cows at \$20 and 18,000 lbs
- 10 market hogs at \$39 and 260 lbs
- 89 turkeys at 47 cents and 24 lbs

USDA Farm Typology

- **Small Family Farms:** sales < \$250,000
 - Retirement
 - Residential/lifestyle
 - Farming occupation – low sales < \$100,000
 - Farming occupation – high sales between \$100,00 and \$250,000
- **Large family farms:** sales between \$250,000 and \$499,999
- **Very large family farms:** sales over \$500,000
- **Nonfamily farms**

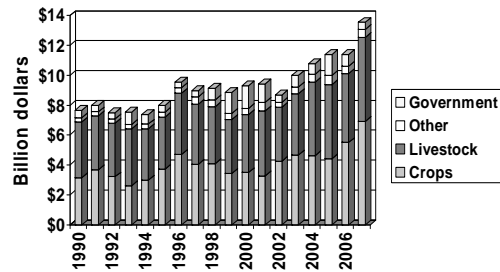
**In 2007, Minnesota had 79,000 farms.
 What type did most of these farms fit into?**

Shares of farms, production, acres, and government payments by USDA typology: Minnesota 2007



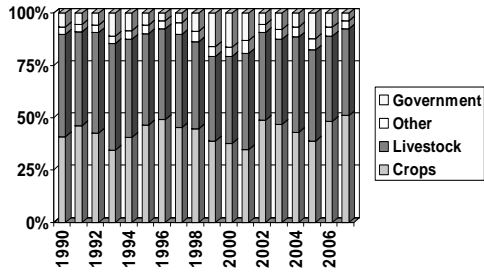
Source: USDA, ERS

Sources of Farm Cash Receipts, Minnesota, 1990-2007



Source: USDA, ERS

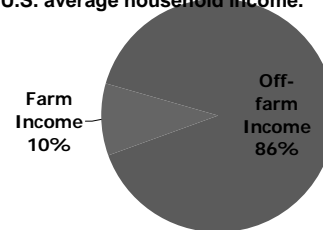
Sources of Farm Cash Receipts, Minnesota, 1990-2007



Source: USDA, ERS

Sources of household income, All Farms: 2007 U.S.

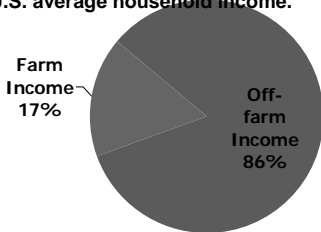
Average total operator household income of \$86,223 was 128% of U.S. average household income.



Source: USDA, ERS, ARMS

Sources of household income, All Farms: 2007 MINNESOTA

Average total operator household income of \$83,050 was 123% of U.S. average household income.



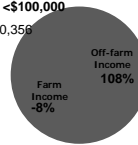
Source: USDA, ERS, ARMS

Sources of household income, by economic class: 2007 MINNESOTA

Gross Sales <\$100,000

Ave H.I. = \$70,356

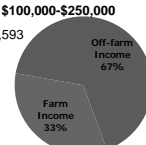
=> 104%



Gross Sales \$100,000-\$250,000

Ave H.I. = 58,593

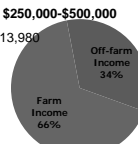
=> 87%



Gross Sales \$250,000-\$500,000

Ave H.I. = \$113,980

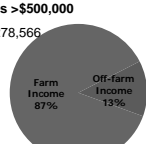
=> 169%



Gross Sales >\$500,000

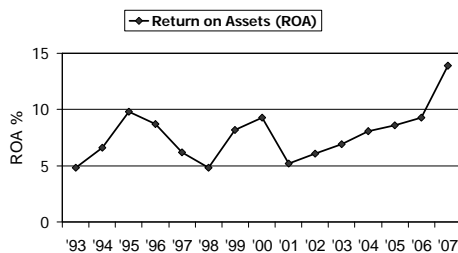
Ave H.I. = 278,566

=> 412%



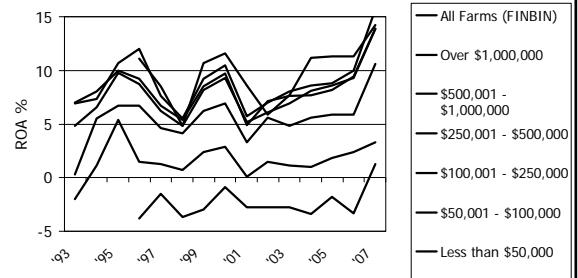
Source: USDA, ERS, ARMS

Average ROA: MN 1993-2007

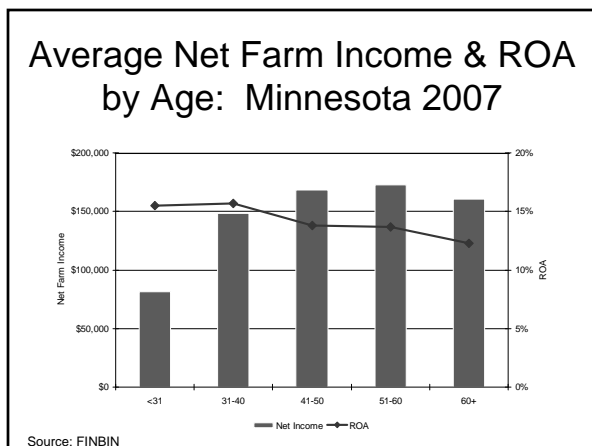
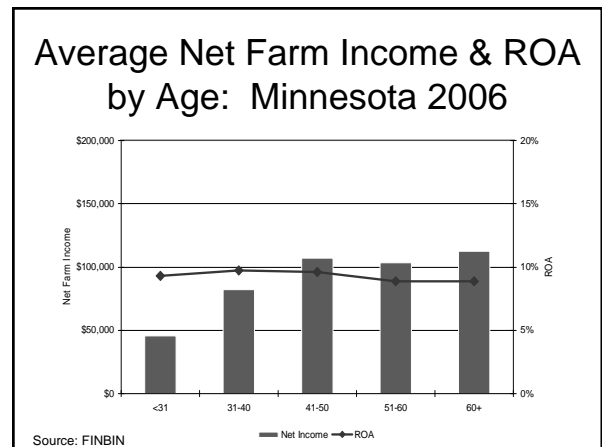
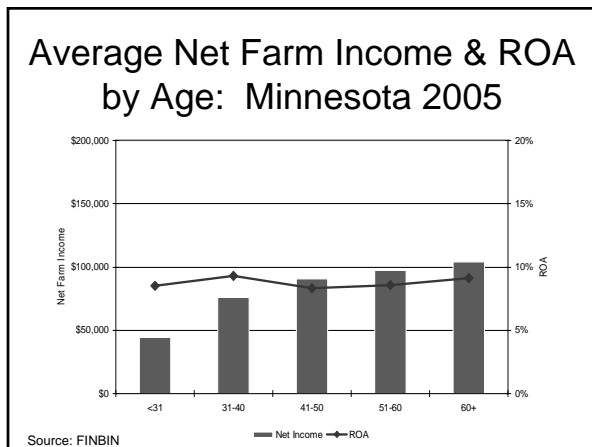
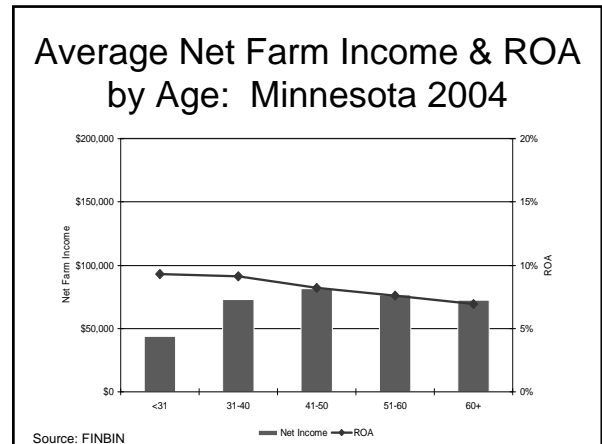
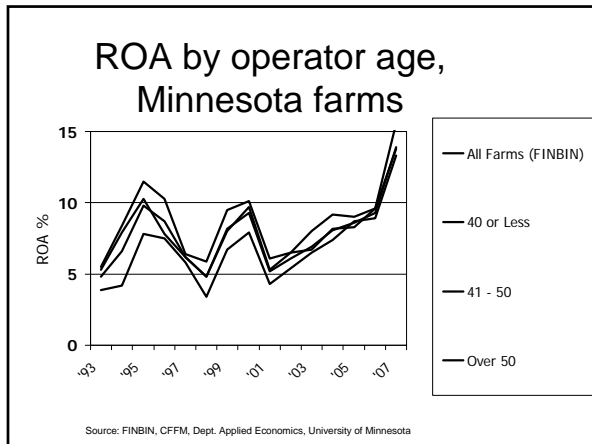


Source: FINBIN

ROA by Gross Income: Minnesota farms



Source: FINBIN, CFFM, Dept. Applied Economics, University of Minnesota



The Scope of Farm Management

Chapter 1

What does a farmer do?

Management is the function of combining ideas, physical and human resources, and processes to achieve the goals of the people involved in the farm efficiently.

Is a farmer a CEO?

Management Activities (selected)

- Set goals and objectives
- Craft strategy
- Acquire and organize resources
- Communicate
- Detect problems and opportunities
- Monitor and evaluate
- Accept responsibility
- Check on everything
- And many more activities

The Functions of Management

- Planning
- Organizing
- Directing
- Controlling

Planning p.1

1. Appraising goals and objectives
2. Assessing the industry
3. Preparing an inventory and analyzing the farm's situation
4. Selecting alternatives
5. Determining inputs and production levels

Planning p. 2

6. Selecting prices for planning
7. Calculating expected costs and returns
8. Estimating potential range of costs and returns
9. Analyzing results of alternatives
10. Developing an operating plan

Organizing

- Acquisition and organization of land, labor, machinery, livestock, capital and management
- Negotiation of terms
- Determining the organizational chart
- Choosing the legal form of business organization

Directing

- Coordination of land, labor, machinery, livestock, capital, and management
- Directing of physical resources
- Scheduling production and marketing
- Personnel management
- Tools for directing: leadership, supervision, delegation, communication, motivation, personnel development

Controlling

Controlling consists of two parts:

1. Comparing results with initial goals and objectives
2. Taking corrective actions, if needed

As a general manager, a farmer is responsible for both management and business functions

Management

- Planning
- Organizing
- Directing
- Controlling

Business

- Production
- Marketing
- Finance
- Personnel
- And so on

Is a farmer a CEO?

The Decision Process

The decision process is often described as a structured, linear process.

A Linear Model of Decision Making

1. Determining values and setting goals
2. Problem detection
3. Problem definition
4. Observation
5. Analysis
6. Development of intention
7. Implementation
8. Responsibility bearing

But
 is a groping,
 cyclical
 decision making
 in reality,
 process.

Revised Decision Making Model

- Four phases:
 - Problem detection
 - Problem definition
 - Analysis and choice
 - Implementation
- Four subprocesses:
 - Information search & paying attention
 - Planning
 - Estimating consequences, evaluation & choice
 - Bearing responsibility

A good decision ...

- Increases the chances of good results
- Decreases the chances of bad results
- Uncertainty is in the world, we make decisions in the midst of it.

Three Questions for Managers

- What can go wrong?
- What can go right?
- What decisions can I make
 - to mitigate the risk of the wrong things?
 - To increase the odds of the right things happening?

Farm Business Life Cycle

- Entry and establishment
- Growth and survival
 - Or: expansion and consolidation
- Exit and disinvestment

Business Plan

- Strategy
- Marketing
- Production and operations
- Finances
- Organization and staffing

Strategic Management

Chapter 2

Strategy is the answer to:

1. What do we want to do?
2. What do we bring to the table?
3. Where should we put our efforts, and why?
4. What do we need to do to compete, survive, and meet our goals?

Strategic Management

- Strategic Planning
- Strategy Implementation
- Strategic Control

Strategic Planning

- Identify stakeholders
 - Who is involved, concerned
- Develop vision, mission, & objectives
 - What do we want to be? (the vision)
 - What do we want to do? (the mission)
 - Clarify values
 - Setting strategic & financial objectives
- External analysis
- Internal analysis
- Crafting the best strategy

Is the present strategy working?

- Is the farm achieving it's financial and strategic objectives?
- Is it progressing towards it's vision?
- What is the current financial condition and performance?
- How well have profit objectives been balanced with other financial and strategic objectives?

SWOT analysis

	INTERNAL	EXTERNAL
Good	Strengths	Opportunities
Bad	Weaknesses	Threats