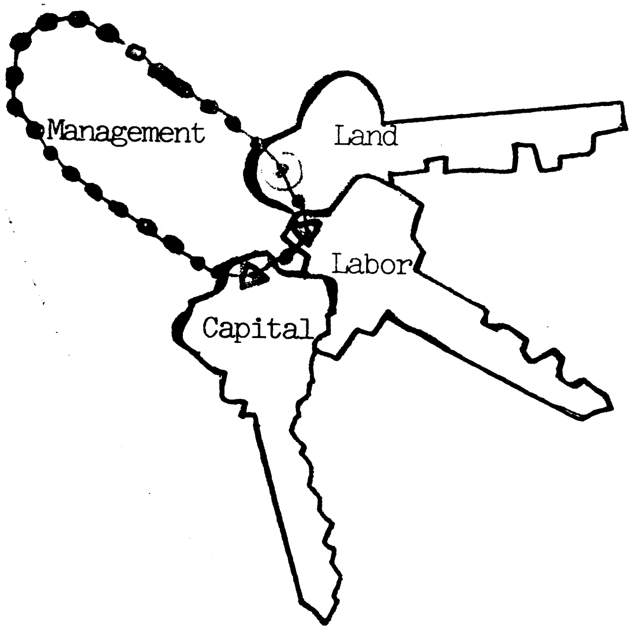

Gaining Control of Farm Resources 1/

Land, labor, capital and management are the basic resources in the farm business. Determining the right combination and the least cost route of controlling these resources is generally the secret to profits in present day farming.

Since the Thomas Jefferson days, many farmers have held as their main objective that of owning all the land, livestock and machinery in their farming operation. This is still a worthy objective, but it is becoming more and more impossible to accomplish. Complete ownership of all resources is generally not recommended if you want to use your limited capital in the most profitable place in modern farming, especially for young farmers. The philosophy is rapidly changing in today's agriculture from full ownership control to controling in the least cost route enough land, machinery, etc. to effectively keep the available labor and management productively employed. The possible control techniques in addition to ownership could be leasing, renting, exchange work,

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1/ Prepared by John E. Moore, Extension Economist, Farm Management, OSU for second Ohio Swine Workship, December 3 & 4, 1976, Holiday Inn, Columbus, Ohio.

custom hire, multi-farming arrangements etc. This last objective more nearly maximizes the operator's labor and management income. For the last several years, continuous growth has resulted in gross income increasing at the rate of 5 to 10 percent annually on most commercial farms as a result of the gradual adaptation of new technology in the form of mechanization.

Thus, the big dilemma in the management decisions in farming has been deciding on the rate of substituting capital for labor. When you over-mechanization with not enough use of equipment, high fixed costs results, and if you under-mechanization, low labor productivity lowers your profits. Days of cheap farm labor are over and the competition of nearby industries means farming must offer competitive wage opportunities to skilled and competent labor. Higher quality labor is necessary to operate the bigger equipment and more specialized livestock programs. Securing continuous and competent labor is one of the major problems on the larger farms. Gaining control of this quality of help may mean changes in the farm organization arrangements beyond the hired man stage. We will consider this subject later in this paper. With increased values of capital in land and mechanization plus the need for higher quality labor, the planning and coordination of the farm business is more complex. Financial management must have a higher priority on a farmers time than in the past.

Management

Management may be defined as planning, organizing, directing and controlling the business to achieve the goals desired. Planning is the most important function of the manager. Selecting business goals and then selecting the best path to these goals out of many possibilities is hard work--work that is frequently neglected. Top management is of utmost importance in these uncertain times in farming. Commodity prices have fluctuated widely in recent years, coupled with the costs of inputs having increased drastically causing a period of uncertainty unmatched in several decades. Periods of uncertainty create great risks, but the management that assumes the risk creates the opportunities for the profits. Following will be outlined consideration for decision making in periods of uncertainties and alternative methods of gaining control of resources.

I. CONSIDERATIONS FOR MAKING DECISIONS in times of uncertainty

A. Review your short and long time goals. This needs to be a team approach if more than one is making the decisions. We don't plan to fail but we fail because we don't plan. Set goals in order of your priorities--net income desired, capital accumulation, leisure, etc. Then decide on the amount of risk you want to assume. Plan and then follow your plan, if it will not pay on paper or in a budgeted plan, it generally won't pay in practice. It is less costly to figure it out on paper rather than fly by the seat of your pants.

B. Operating capital needs first priority and then consider investment commitments Effective use of operating capital has a higher return than from investments in land and other capital assets, generally. As you grow and have excess funds, you may want to put more emphasis on investments in land, buildings, etc.

Widely fluctuating commodity prices and rapidly increasing land prices in Ohio adds dramatically to the risk of long time investment commitments. On the average, land prices in Ohio (all marginal and good farm land) have increased from $399 1970 to $870 1976 or 118 percent. Young farmers, especially with very limited capital needs to think twice before placing high priority on land purchase.

Land contract commitments have hidden headache features. One being the inability to use this kind of a contract for future credit.

C. <u>Keep risk at levels in line with your capital position</u>.

Farmers at the same capital position can vary on the amount of risk they assume by using one or more of the following techniques:

1. Emphasize cash flow budgeting at a range of prices and yield possibilities before committing capital to long range investments of land, buildings and machinery.
2. Make low cost improvements first and make big improvements and investments in small steps over time. Use partial budgeting to determine cost-return benefits.
3. "Get better before you get bigger" both in production and in marketing.
4. Crop share rather than cash rent (landlord is sharing the risk and profit).
5. Think and plan ahead concerning your future production supplies to be needed. Forced decisions and purchases are generally more expensive than projected ones.

D. <u>Marketing Strategies need to be planned</u>

With widely fluctuating product prices it becomes increasingly difficult to market your entire crop all at one time for the highest price. Selling your grain in 2 to 4 different time periods seems to even out the price risk for some. Hedging a portion of the production ahead may be advisable. Checking with alternative markets from time to time can be especially important.

II. ALTERNATIVE CONTROL METHODS

We are seeing a lot more interest in the multi-farming organization such as partnership and incorporate units.

Multi-farming Arrangements - can help with the pooling of resources. It is a control technique to expand land base as well as gain efficiency in machinery and livestock programs. The multi-farming arrangements more often fail because of human relationship conflicts than over business arrangements. However, mutual planning efforts and written agreements aids in both areas. This is an example of people working together. Success just doesn't happen--it is developed by individuals involved who "put themselves out" to make it work. Everyone is not cut out to be in business as a partner. However, following are some definite advantages of a total farm partnership or corporate unit:

1. Usually permit larger and more efficient business.
2. Helps solve the problem of competent and continuous labor.
3. Dual management aids in better labor supervision, more relaxation on vacations, and better production performance.
4. Allows for the pooling of resources to increase the efficiency of equipment, buildings, labor, and land use.

Regardless of the form of farm organization, whether it be individual proprietorship, partnership, or farm incorporation obtaining capital for machinery and equipment is a growing problem due to the increasing amount of mechanization needed.

Machinery and equipment control techniques - vary by farms and by different operations on a particular farm. But the alert farmer is giving the different methods listed below more study and may use a combination of them to lower his production costs.

Ownership - is the most complete degree of mechanization control, as all decisions can be made by the owner. The major disadvantages include a high user cost if the machine is not used to capacity.

Co-Ownership - as a control technique is returning in popularity in some areas in the form of more interest in partnerships and incorporations. Neighbors are working out agreements whereby larger machinery is available through co-ownership of machinery systems. The advantage is more use of a piece of equipment thus less fixed cost per acre, less man hours in the field through co-ownership of bigger equipment. Disadvantage is the need for compatability and timing of the use schedule. This is one of three limited control techniques. Following are two other useful limited control methods.

Exchange work - is an age old practice that is showing some revival due to higher cost of equipment and the need to increase labor productivity through bigger machinery. Several farmers may work together, each owning a different item and using the entire complement of equipment and labor cooperatively. Compatability of the farmers involved is the key to success.

Custom hire - both equipment use and labor may be provided by neighboring farmers, custom farm companies, or machinery dealers. Harvesting or other major operations such as planting, spraying, and fertilizer application are common custom services available in Ohio and across the Corn Belt.

Leasing - has been used by non-farm industries for many years. Why has agriculture been slow in accepting this method of capital control? The seasonal nature of the use of farm machinery contributes to high use cost and extreme pressure on timeliness which challenges traditional leasing policies. Another reason is the pride of ownership held by many farmers and most important leasing generally has a higher annual cost per acre of operation than ownership.

Stretching capital by leasing may cause annual cash flow problems. Your lender may feel that a long-term lease reduces the ability to repay current debts and he may be reluctant to loan for more productive inputs. However, in most cases it takes a better credit rating to be able to lease than it does to own the machinery.

Rentals - equipment rental is available from some dealers where equipment is obtained by the hour, day, week, or month. However, the major disadvantage is the assurance of having the equipment available for use when needed. This technique differs from custom hire in that the operational labor is the lessee's responsibility.

A combination of machinery control techniques may be the low-cost path on some farms. The least-cost route depends on many factors depending on the particular farm situation.

Timeliness Has Always Been A Key To Profits

Increasingly, the size of the farm business places more stress on scheduling of all phases of the operation. We can be so concerned about unit costs per acre that under-mechanization will prevent timeliness and our cost per bushel will increase even though per acre costs may be low. How much have we streamlined our rotations to minimize the number of kinds of implements needed? How much use are we getting out of the investments in the big trucks, grain drills, etc. on many farms? As a top-notch livestock man, can we afford to re-tool with modern machinery for crop production or is there a method of subcontracting this operation? The following timely operations must not be overlooked such as:

1. Financial planning and reporting to credit agency.

2. Repairing of machinery and equipment.

3. Labor scheduling at peak periods.

4. Sanitation and livestock production practices.

5. Procurement of supplies and marketing of production as the farm unit grows.

Producers will be more market oriented and profit will be increased by timing the marketing and purchasing of supplies.

In summary, the challenge will be to periodically determine what are the limitations and opportunities on your farm. If expansion is a part of your plan, be sure you can manage an expanded business. Certainly complete and accurate financial records is a must coupled with adequate production records. OSU has an excellent year - end analysis financial computer program. See your County Agent or Vo. Agriculture Teacher for the specifics. Your year-end financial analysis becomes more valuable to you each year you complete the analysis. The future cannot be predicted with certainty, but good records and analysis aids considerably in keeping a manager on course toward meeting his goals.