



Risk Management Education



Florida A&M University

Cooperative Extension Programs

College of Engineering Sciences,
Technology and Agriculture

FACT SHEET

GETTING STARTED IN FARMING: THE DECISION-MAKING PROCESS

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*To make a success of a farming venture,
it is important to analyze personal situations and goals,
and then set a strategy to achieve them.*

① *Most successful business people did not start at the top.*

- ▶ Do not try to get too big too soon. Develop farm unit over time, keeping its size consistent with management skills and financial position.
- ▶ Establish a good track record showing ability to generate and manage income
- ▶ Have long term goals to strive for and plans for attaining them

② *Most beginning farmers have adequate labor, but limited capital*

- ▶ Use scarce capital to purchase items that bring high returns
- ▶ Piggy-backing with an established farmer, whenever possible, to reduce pressures 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 enterprises to make fuller, year-round use of labor supply
- ▶ Gain control of resources in ways that will give good returns
- ▶ 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

③ *Over time, capital availability will depend on management capability*

- ▶ Establish a good production and financial record. Do not try to grow too fast.
- ▶ Spend time becoming a better manager. Develop production, marketing, and financial management skills
- ▶ Secure management help when possible (extension agents, adult vocational agricultural course, creditor, professional manager, or established farmer)

④ *Keep fully employed*

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

⑤ *Keep family living costs in bounds*

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

STEP ONE: GOAL SETTING

- ▶ Goal setting requires a manager to take a look in the future to see what he/she wants to achieve.
- ▶ Goals can be considered a road map to the future.

QUESTIONS TO CONSIDER WHEN SETTING GOALS

Where are you going?

How will you get there?

When do you plan to arrive?

STEP TWO: BUDGETING AND PLANNING

WHY SHOULD YOU BUDGET AND PLAN?

- ▶ Helps to identify risks and reduce the possibility of surprises
- ▶ Allows for better use of limited resources
- ▶ Helps to determine how realistic goals are
- ▶ Requires you to confront important business decisions in advance
- ▶ Makes it easier to attain goals

QUESTIONS TO CONSIDER WHEN PLANNING

What should be produced?
When will the production process begin?
What is the expected yield or return?

What resources are available?
What is the price and quantity of inputs needed?

STEP THREE: RECORD KEEPING

WHY SHOULD YOU KEEP RECORDS?

- ▶ Helps to monitor progress toward attaining goals
- ▶ Provides information needed to make business plans and decisions
- ▶ Helps to determine which farm enterprises are most profitable
- ▶ Provides records to compare progress from year to year
- ▶ Helps to identify strengths and weaknesses of your operation
- ▶ Helps to identify opportunities for improvement
- ▶ Supports and aids in preparation of loan applications

TIPS FOR RECORD KEEPING

- Make the record keeping system easy to maintain
- Set aside one day each week to record all transactions and activities
- At the end of each month, add up all incomes and expenses

STEP FOUR: ANALYZING PERFORMANCE

WHY SHOULD YOU ANALYZE PERFORMANCE?

- ▶ Allows you to make sound business decisions based on actual production outcomes
- ▶ Helps to identify and learn from mistakes
- ▶ Allows you to identify strengths and weakness in the operation
- ▶ Helps you to see opportunities for future improvement
- ▶ Helps you to recognize good or bad trends in the operation
- ▶ Allows you to compare different alternatives
- ▶ Helps you to develop a sound marketing plan

TIPS FOR ANALYZING PERFORMANCE

- Compare actual performance to projected plans
- Analyze performance frequently; do not wait until the end of the year or production season
- Make sure goals are being reached
- Test the possible outcomes of several alternatives
- Use the outcome of the analysis to make decisions for the upcoming year
- Do not be afraid to change enterprises or practices

REMEMBER:
PLANNING IS TOO IMPORTANT TO LEAVE UNDONE.
SUCCESSFUL FARMERS MAKE TIME FOR PLANNING.

References:

Emery N. Castle, Manning H. Becker, A. Gene Nelson, *Farm Business Management: the Decision-Making Process*, 1987
Gene Nelson, *Business Management In Agriculture*
USDA - Farm Service Agency, Form FMHA 431-2

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