



Florida A&M University

Risk Management Education

Cooperative Extension Programs



College of Engineering Sciences,
Technology & Agriculture

FACT SHEET

ONE THE ROAD TO SUCCESSFUL FARMING: THE DECISION-MAKING PROCESS



Vonda H. Richardson

Extension Specialist - Marketing & Farm Management









WHAT IS SUCCESS?

Success is a favorable accomplishment, attainment, issue, or outcome

WHAT MAKES A SUCCESSFUL FARMER?

-  *If success is measured in terms of profitability, successful farming is determined by the farmer's ability to manage his or her operation efficiently.*
-  *Successful farmers conduct their business operation economically. This means that they use whatever resources are available and make them go as far as possible toward achieving the farm goals.*

DECISION-MAKING STEPS FOR SUCCESSFUL FARMING

-  Setting Goals
-  Recognizing the Problem
-  Obtaining Information
-  Considering Alternatives
-  Making the Decision
-  Taking Action
-  Accepting Responsibility
-  Evaluating the Decision

GETTING STARTED IN FARMING: THE DECISION

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.

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 with plans for attaining them

Most beginning farmers have adequate labor, but limited capital

- ▶ Use scarce capital to purchase items that bring high returns, such as fertilizer
- ▶ 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 labor-intensive 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

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)




Keep fully employed

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

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




-  *Successful farm managers are goal oriented.*
-  *A goal is a target which the manager is willing to work toward.*
-  *Goals provide direction for planning*

HOW ARE GOALS DEFINED?

1. Goals should be specific
2. Goals should be objective and realistic
(know your abilities and available resources)
3. Goals should require effort
4. Goals should include deadlines
5. Goals should be measurable
6. Goals should be flexible so they can be altered if needed
7. Recognize that all goals will not be attained immediately

-  *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?

TWO TYPES OF GOALS:





1. SHORT-TERM GOALS - goals that can be achieved in a week, month, year, or a few years


** Example: To make \$10,000 profit from peanuts this year **


2. LONG-TERM GOALS - goals that can take several years to achieve

** Example: To pay off land mortgage in fifteen years **

TIPS FOR SETTING GOALS

-  Set realistic and attainable goals based on resources
-  Write down goals and update them when accomplished or changed
-  Make specific action statements that include deadlines for attaining goals
-  Arrange goals in order of importance

 *Beginning farmers as well as established farmers are facing tough business decisions. The right answer for one producer may not work for another. Each producer has different goals, resources, and perceived opportunities.*

 *To compete effectively, a producer needs to set his or her own goals and establish his or her own plans for achieving them. An old adage says, if you don't know where you are going, then any road will get you there.*

STEP TWO: PLANNING FOR A SUCCESSFUL FARM BUSINESS

WHY IS PLANNING IMPORTANT?

- The recent agricultural economy has been turned upside down
- Sometimes it seems the only thing to be certain of is uncertainty
- Planning is important to cope with the ever-changing industry

WHAT IS PLANNING ALL ABOUT?

- Studying your business and what is happening around you
- Coming up with a course of action consistent with your goals
- Making adjustments as you learn about the future

WHY FARM MANAGERS DON'T PLAN?

 ***Most farmers agree that planning is important, but when it comes to actually doing it, many are reluctant.***

Many farmers get discouraged because:

- Planning reminds them that the future is uncertain and risky (Often farmers prefer to ignore this risk).
- Planning is not easy (Although it involves careful thought and analysis, planning is not difficult).
- Planning makes them vulnerable (When seeking advice in developing a plan, they have to admit that they don't have all the answers).
- Planning isn't done because farmers think they can't find the time.

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?
- ✓ What resources are available?
- ✓ When will the production process begin?
- ✓ What is the price and quantity of inputs needed?
- ✓ What is the expected yield or return?

TIPS FOR BUDGETING AND PLANNING

- ↳ Make plans that are consistent with goals
- ↳ Do not plan based on the best possible outcome
- ↳ Consider uncontrollable situations (changing prices, weather, etc)
- ↳ Budget the amount of resources needed to accomplish tasks for each month
- ↳ Compare alternative plans so that resources can be budgeted for the best use
- ↳ Budget and plan based on knowledge of past performance

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

TYPES OF RECORDS:

- ▶ **PRODUCTION RECORDS** - detailed information on quantities of inputs used, output produced, and products sold
- ▶ **FINANCIAL RECORDS** - detailed information on all cash and non-cash transactions (income, expenses, depreciation, labor records)

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
- ▶ Keep separate records on expenses and income from each enterprise
- ▶ Record time used to complete each task

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
- ▶ Compare performance to other similar operations
- ▶ Compare past performance to present performance
- ▶ Analyze performance frequently; do not wait until the end of the year or production season
- ▶ Make sure goals are being reached
- ▶ Select a few ratios; learn what they measure and how they are calculated
- ▶ Test the possible outcomes of several alternatives
- ▶ Use the outcome of the analysis to make decisions for the upcoming year
- ▶ Compare the differences in net income from one year to the next
- ▶ Do not be afraid to change enterprises or practices

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

Florida A&M University is an Equal Employment Opportunity, Equal Access University, and does not discriminate on the basis of race, color, disability, marital status, national origin, or age.