



## Economic Toolbox

### **Mom and Pop Are Dead - *This Means War!***

Most American consumers hold the notion that farms are "Mom and Pop" type businesses characterized as small, traditional and unsophisticated. If you are a farmer and you share these opinions, your business is dead. In this age of information and competition, there is no room to waste time stewing about how it should or used to be. Anyone in business in the free-market system (agriculture or otherwise) had better be prepared to wage war in the effort to survive.

The *business* of farming is a reality and successful farms are winning the battle for survival. Here are the characteristics that are helping them do it.

#### **Well Planned**

Before marching off to battle, successful farms are absolutely certain that they are prepared to do what it takes to meet the challenges ahead. Personal and business goals are clearly established. Successful farm businesses are run by individuals who know what they want to achieve, and can gauge their ability to meet these goals. By knowing what they want to obtain, these farm managers have improved their ability to plan a strategy that will focus their management effort on areas that need improvement.

Developing a focused plan requires clear insight into the existing problems of the business. Growers and farmers intending to remain competitive have solid financial and production records that they use to gauge success. These records are also used to persuade lenders and partners on the merits of the business plan. They use industry averages to see how they stack up in such areas as cost control and production efficiency. They gather information from seminars and tours to plan improvements in their production and marketing methods.

Armed with this information, successful farms are also ever battling for the "best price" for their product, not a regulated "fair price." They recognize that fighting to maintain "fair prices" through government intervention is a dangerous mine field that keeps them from concentrating on improving their own operating efficiency. Forward contracting, commodity futures, and quality or quantity bonuses are all tools used to help get the best possible price. Given the limited resources available to any business, choosing the right battle to fight can mean the difference between success and failure.

### **Automated Offices**

Effective and timely communication is necessary to carry out and monitor the day to day details in operating the farm business. Office automation such as computerized financial and production records allows good managers to put a finger on the pulse of their business. The ability to study actual income and expenses at any given moment of the year enhances control of the business. And, it gives lenders or other investors a feeling of confidence in an industry full of risk.

Fax machines, cellular telephones, answering machines, modems and satellite dishes provide the necessary communication channels. These tools improve information gathering and communication with suppliers, customers and employees like never before. This gives decision makers crucial time to react to changing circumstances. All these techno-gizmos are within the budget of any size farm business that can put them to use.

### **Resourceful**

Tomorrow's generation of farm managers knows not to show up at a gun fight with a knife! They bring a bigger or better gun. As in war, successful farm businesses are sure they have, or can obtain the assets required to survive and win a battle. This often means hiring expertise if they do not have it themselves. Using these resources can be as simple as hiring a book keeper, feed consultant or crop consultant to help

pinpoint and solve persistent problems.

Sometimes it takes major reorganizations such as expansion or shedding of entire farm enterprises to make the business profitable. Ideas that were once considered radical are becoming common place, such as a dairy farm purchasing all of its feed and replacement heifers. Other farms are capitalizing on volume discounts or volume premiums by combining their purchasing and selling power with other farms to give them an edge.

### **Decisive**

Effective farm owners and managers can gather information, develop a plan and marshal their resources. After much research and study, they take the final and most important step. They act. Taking action without thorough research and without getting lenders, partners and family members on board first is as dangerous as failing to act at all.

The plan should be deviated from only after determining that the benefits far outweigh the costs, and only after lenders, partners or family members agree to the changes. Cost overruns due to last minute changes can cause years of cash flow struggling. Making major changes without detailed plans and the full support of lenders can quickly lead to a project's demise. Decisive managers act on a well prepared plan.

"Mom and Pop" run farms are dead or dying, but that does not spell the end of family farms. The battle for success is not easy and it is not for the faint of heart. Our economic system ensures that. The clearer we see reality, the more prepared we are to meet it head-on, and win.