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Profitable Agriculture Alternatives Newsletter

Annette Dunlap, Editor

Frozen Crops, Dry Weather, Reduced Revenues: Helping Farmers Evaluate Alternatives

2007 is going to be a rough year for many producers. NCDA&CS has estimated crop damage from the Easter freeze at \$98.8 million. Drought conditions threaten crops that either survived, or were planted after, the freeze. These adverse weather conditions create an excellent opportunity for agents to assist growers in evaluating the business aspects of their farm operations.

Start with an assessment

It has become an axiom of farm management that dependence upon one crop as a source of income has its own inherent dangers, and this year's weather confirms that view. Farmers need to move increasingly into the role of business manager in order to identify strategies and market opportunities that can help sustain a desired farm income.

Strategic planning offers a framework for assessing business operations. Begin with an assessment of the farmer's current situation. Successful farms, as is true of any profitable business, look for opportunities that fit the skills and resources of the producers. Two types of opportunities to consider are (1) those that offer possible crop/product expansion and (2) those that create new market expansion.

Product expansion can include adding a new crop to the rotation or diver-

sifying the types of crops currently planted. Orchard growers may want to consider out-of-season greenhouse production, if they can identify affordable sources of fuel. Vegetable growers may want to move toward planting heirloom varieties or add beef, chicken or pork as new profit centers.

A second possibility is market expansion through new customer acquisition or moving into new geographic territory. Greenhouse production creates the opportunity to provide year-round produce to restaurants, retailers and public school cafeterias. Market research, customer identification and customer relationship building take many months. Growers who have an interest in developing these customer opportunities need to act now with the intention of having product to offer next season. Short-term opportunities are available through the Farm-to-Schools program for growers who do not have other market relationships established. Information on this program can be found at <http://www.ncagr.com/fooddist/Farm-to-School.html>. Please note that producers do not have to be GAP-certified to participate in this program.

A financial assessment is also essential. Any change in operations, no matter how small, affects a producer's budget. While the input costs may be relatively marginal, market develop-

ment can take from two to five years before a desirable income is attained. Producers who are adding new crops to their rotation or crop mix may be on a learning curve as they develop experience with seed, fertility needs and harvest schedules. All of these aspects of product and market expansion need to be considered and evaluated as part of the decision-making process.

Manage Risk

USDA offers several insurance products to help producers manage their risks and protect their farm income. Traditional crop insurance is offered on a number of North Carolina crops ranging from apples to wheat. Information on the premiums and coverage is available through the USDA's Risk Management Agency. Insurance plans and contact information can be found at <http://www.rma.usda.gov/pubs/2007/stateprofiles/NorthCarolina06.pdf>.

AGR-Lite is another farm insurance program available in North Carolina through USDA-RMA. The 'AGR' stands for Adjusted Gross Revenue, and the program insures a farm's entire revenue, as distinguished from insuring specific crops. Premiums are based on the farm's net earnings over a five year period. The farm must file a Schedule F showing farm

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income and expenses. RMA requires that producers also obtain commodity insurance for insurable crops. More information on AGR-Lite can be found at <http://www.rma.usda.gov/pubs/2003/PAN-1667-06rev2.pdf>.

USDA's Farm Service Agency provides insurance for crops typically not insured against particular types of disasters, such as hurricanes. Information on FSA's coverage can be found at <http://offices.sc.egov.usda.gov/locator/app?state=nc&agency=fsa>.

Those experienced with insured crop losses know that they never recover the entire amount of the revenue lost due to a disaster or crop failure. Therefore, two other risk management policies that need to be a part of

regular operational practice are looking for cost-effective ways to reduce expenditures and finding ways to save income in highly profitable years. Good planning and clearly identified profit and market objectives can help both of these risk management strategies be effective.

Set Goals

The end result of both a situational assessment and a risk management plan are specific goals. Goals should be realistic for the producer, and they should include the desired income and a timetable for implementation. Producers should periodically review their goals as they move through the year, and adjust them as they gain experience, encounter unexpected situations and get new information.

Find a Balance

Risk is a reality in every business operation, both agricultural and non-agricultural. What makes an agricultural operation riskier is that a producer's livelihood is also tied to his or her home and land that may have been in a family for generations. Producers should look at their farm operations while "wearing a business hat": identifying those activities that will help to produce income, spread the risk of failure across several crops or markets and provide income protection in the event of adverse situations. Reacting to disasters with short-term strategies may ease the short-term pain, but a long-term outlook, and appropriate planning, can often provide a better and more secure outcome.