Risk and Resilience in Agriculture

Things To Think About When Trying Something New In Your Operation

By: Chris Bastian
University of Wyoming

There are a number of alternatives or new strategies you might consider trying in your operation. As a manager you have to establish goals for your business, inventory your resources, explore the enterprise possibilities, and develop a plan which may include several alternatives. The planning process needs to identify resources needed, timing of operations and resource usage during the production period. This planning process should also have a marketing plan to go with it. Once the plan has been developed, the next task is to implement the plan.

Trying Something New

A plan, which includes new strategies or alternatives, means changing, and along with changes comes added or different responsibilities for a manager. Implementing the new plan basically involves acquiring the necessary resources such as labor and capital, scheduling and overseeing the work called for in the plan. When new strategies and alternatives are being considered, implementation means these tasks may have unknown or different problems than you are used to.

If you have never had any experience with this new enterprise you probably want to get as much additional information on how to do it as you can. For example, if you've never retained ownership in the feedlot before, you might want to get additional information on how to pick a feeder that will meet your needs. When considering a new production approach, you should recognize that the learning process would not be instantaneous. Both the quantity and quality of the output may not be what you expected for the first few years. The amount of learning that is required will probably depend on how new and different the operation is for you.

What Do I Really Need To Get The Job Done?

If the planning process was thorough, implementation of new strategies may be relatively easy. It is often times those unplanned things that create stress when implementing a plan. Thus, for a plan to be most effective in achieving goals a detailed calendar of production activities and practices can help you decide what resources are needed, when they are needed and whether you need to acquire additional resources before implementing the plan. This calendar should also include an estimate of how much resource you will need for each activity along with describing what and when activities occur. For example, once you schedule an activity and estimate the labor it will take, you can then decide if there are too many demands on your labor resources during that time and whether to hire additional labor to meet those demands. Perhaps you will determine a need to purchase machinery or invest in handling facilities, which you do not currently have. Additional planning of resource use beyond a budget can help you determine these possible changes in resource needs compared to your current operation.

Within the course of the year it is important to know not only whether this enterprise pencils out, but also whether your cash flow requirements and or financing needs change. For example, if you have decided to retain ownership, you may forgo some sales in the fall, which could cause you to need additional operating capital to get you through, until you can sell the fed cattle later. An enterprise that provides an inflow of cash at the right time may defer the need for additional financing. This enterprise may have an advantage over a seemingly more profitable enterprise that requires cash when resources are tight.

Acquiring What Is Needed

Labor

Labor may be one resource you need to add when implementing a new strategy in your operation.   You'll need to assess and acquire the kind of labor that fits your needs. Do you want the labor to be part-time or full-time, and do you want this person to be strictly labor or will they need to have some management skills? Hiring someone new may mean you have to take additional time to train him or her. You can't just assume the new employee knows what needs to be done and how to do it. A manager also needs to listen to new employee ideas on how something might be done. As a manager you will also have to motivate employees to perform to the best of their abilities. Praise for a job well done, as well as suggestions for improvement in performance are important in motivating people. You may also want to consider using some type of incentive plan to help motivate employees in doing their part to see that business goals are achieved. One type of incentive plan may include allowing the employee to run some of his or her own livestock on the operation, or allowing the employee to build some shares in the business's herd.

Land

Your plan might indicate that more land is needed in the operation for such things as growing winter feed or grazing. The basic choice between leasing or buying land is very important at this point. Owning the land can mean no risk of losing the lease. Land can also appreciate in value, which can increase net worth and possible borrowing power. Purchasing the land, however, means substantial capital outlay, which can increase debt loads and reduce cash availability for other investments or enterprises. The basic question becomes whether leasing or purchasing has the highest financial payoff compared to alternative uses of operator funds, and which method is financially feasible for the operator.

Leasing land has the primary advantage of eliminating the large capital outlay associated with purchasing land. Leasing arrangements are often based on traditional practices of the area. The lease must provide for an equitable sharing of income between the landlord and the tenant. The lease should be in writing and specify legal protections for both parties in case of default or nonperformance. The minimum requirements for a written lease should be that it is signed by both the tenant and landlord, specifies the time period of the lease, accurately describes the property, describes the payment amount, specifies the payment date, and where the payment is made. The lease agreement should also include procedures, requirements and responsibilities for maintenance and improvements by both parties.

Borrowed Capital

When going to the lender you can increase your chances of getting capital by having the information necessary to answer several questions. Can my operation withstand financial losses without being forced into liquidation or insolvency with this new loan? This basically assesses your operation's ability to bear the risk of this loan in the event of unforeseen problems. Your debt to net worth ratio can help give you a measure of your operation's risk bearing ability. Also, you need to know whether you have the cash flow and or the collateral necessary to repay this loan. This helps determine your operation's repayment capacity. Along with the assessment of repayment capacity you should develop a repayment plan. This means coinciding payment date with cash flows and amortizing the loan long enough to make the payments affordable for the operation. It is safer to a pay a little more interest over the life of the loan and keep your payments low enough that your business can still make the payment during unforeseen problems. If you have these things well documented before going to your banker, your chances of getting funds will be much greater.

Other Considerations When Implementing New Strategies or Enterprises

Market considerations also become important when considering a new alternative for your business. If you're not used to marketing this new product you need to carefully plan your marketing. When developing your marketing plan you need to consider all your marketing alternatives for the product, set your pricing goals and compare your alternatives based on costs, risk, timing of sale and pricing opportunities throughout the marketing year. You can start to develop a plan by considering the following items. Will someone buy what you produce at the price you need? Is the market you have targeted appropriate for the timing, quality, and quantity you will deliver? What about transportation costs? Have you forward contracted this production with a buyer? If so, what are the terms and implications of the contract? Have you adequately protected yourself?

A new enterprise or strategy is unlikely to always to be profitable. Before incorporating this new enterprise or strategy into your operation you need to consider how risky this will make your overall business. The idea behind diversification is that you incorporate an enterprise that creates income in times when your other enterprise is losing money. This may not always be possible when dealing with strictly livestock enterprises, but you might consider trying your new enterprise on a smaller scale until you are used to managing for it. For example, rather than sending all your steer calves to the feedlot you might consider sending a smaller bunch until you see how they perform and get comfortable with the management changes required. Perhaps you can change your operation so all of your sales don't come at just one time during the year. You might consider selling some calves in the fall and feeding steers to slaughter for sale in the late spring. This type of strategy might help cash flow and reduce risks associated with having your income depend all on one strategy. Although this approach might reduce some initial risk or improve cash flow, it may place increased demands on your management skills.

Another factor to consider when implementing a new strategy is the government. Will this new strategy have income tax or regulation implications? If you have to hire labor for the first time, you may want to get information concerning government regulations and issues such as withholding taxes and social security. You may want to consult your accountant and or lawyer, if you are unsure of any tax implications or government regulations.

When you decided on your business goals, you may have decided on goals, which were not based purely on the bottom line. Doing something a certain way may do some production practices or alternatives because you prefer a certain lifestyle or you may gain satisfaction. Thus, before adopting something new in your business, consideration should be made on how changes will affect your family's life and whether change will help accomplish your long-term goals.

Concluding Comments

As a manager you must always examine the possibilities of changing your operation and adding new enterprises or strategies to your operation. If you have not made any major changes in your operation for awhile, adopting something new can sometimes be difficult. Trying to consider as many of the implications of this change as possible can help remove some unplanned crises and hopefully increase the probability of success when implementing your plan.

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