



Entering the Farming Field: A Primer

Deciding to enter the agriculture industry as a new farmer is a life-changing decision. With half of all current farmers in the United States expected to retire within the next decade, you will certainly find many people who are excited that a new individual is considering a fresh career in farming. You will also find many people – some of whom are retiring or planning to do so – who will offer you guidance, support, and wisdom that you will need in order to decide firmly whether to enter farming, and if so, how to succeed at it.

A person who decides to leave a non-farming life and begin the life of a farmer probably recognizes – and is largely attracted to – the fact that farming is much more than a career path. Farming is also a lifestyle – or perhaps we should say most accurately that farming is a way of life.

Of course, there is the romantic notion of what this means. This romanticized vision may entail ideals of a slower life, of ‘leaving the rat race’, of living closer to the land. It may also prioritize living in the countryside as a higher good versus living in the city or suburbs, and the idea that working with crops and livestock – the backbones of our ability to feed the nation – is a noble profession.

Farming is, first and foremost, a business – just like any other business. It is not a slow business, but rather a very fast one. It is fast, perhaps, in a different way, however. While riding a tractor in a field at 10 mph may seem more ‘relaxed’ than responding to emails and deadlines in an office, the reality is that the farmer riding the tractor is probably busy worrying about time in just the same way as the office worker. Instead of worrying about meetings and emails, he or she is worrying about harvesting crops within a critical time window; improving the yield of his or her dairy herd; or staying a step ahead of the weather. And when the day is done, he or she still has emails to review, reports to analyze, and major decisions to make.

Farming today is not economically viable unless it is practiced with speed and precision, and so while it is possible to be both a ‘gentleman’ and a farmer, it is not possible to sustain oneself financially living as a ‘gentleman farmer’. And that brings us to

one of the most pressing questions you should ask yourself when considering the farming field: Do you intend to make it your only source of income?

Among active farms today, only an average of one out of four, or 25%, function without some sort of outside income sources coming in to pay the bills. This means that the vast majority of farm households have one or more family members who work outside of the farm to bring in additional income.

It is not so much that farming cannot be profitable, but rather that in order to achieve profitability most farmers need to either acquire other farms and become larger businesses in order to achieve economies of scale – or they need to secure additional income sources in order to live a comfortable lifestyle, in addition to running the farm. In Pennsylvania, most farm families have made a conscious decision to balance their business and lifestyle goals by running small farms but doing so very efficiently. In other parts of the country, farm mergers, acquisitions, and other increases of scale are more common.

Either way, sacrifices have to be made. For the small farm, it means keeping a very lean staff on hand, perhaps just immediate family members and 2-3 other hired professionals (and part-time at that, possibly). That means that farming is usually highly labor intensive for a small group of people. Whereas a factory may require hundreds of employees, a farm might only require a few – but that few has to be up early and work late, every day, in order for the job to be done.

The only other approach is for the larger farm, which means operating as a more complex enterprise in which the farmer supervises the business as much or more than he or she would be personally engaged in farming activities.

So farming is a fast-paced business, and it is also a business that requires careful decision-making in regard to the balance of work, lifestyle, and profitability. And yet, there is more to consider. Farming is also a capital-intensive industry, and if you choose to buy an existing farm business chances are buildings and equipment you acquire will still need to be maintained and replaced on a pretty aggressive cycle. A successful farmer is also knowledgeable about the selection and optimum use of some of the most complex machinery in the world.

Farm equipment is a modern miracle of engineering and that also means that it is extraordinarily expensive. A person who enters the field with a strong credit record and poor business fundamentals will quickly find himself or herself saddled with overwhelming debt because finding the balance between modern equipment and practical planning is extremely tricky. For example, in dairy farming many studies have shown that certain

types of new milking parlor designs should increase milk yields significantly. On paper, then, this suggests that investing in a new milking parlor could become a major contributor to profitability.

But cows are not machines, and they are notoriously complex animals to manage. Cows have widely different temperaments, are very sensitive to change, and often react to new situations with concern. The change to a new milking parlor could actually reduce milk yields first, as cows adjust to their new environment. Like humans, they are creatures of habit and consistency of experience. As a result, it is not uncommon for a top-yielding dairy farm to possess very old milking facilities that have been carefully maintained, although it is also not uncommon for farms that invest in new solutions to also achieve high yields after a period of transition. So figuring out how best to select and finance major capital expenditures can be a maddening process of balancing considerations.

Farming is also a technologically advanced industry. Computer software is used to model yield scenarios or plan crop planting routines. Automated systems with geographical information system (GIS) components help keep harvesting activities running smoothly. Computer-controlled equipment maintains temperatures, controls gates, and handles other operational functions. We think of farming as low-tech because the technology is embedded and doesn't overwhelm the pastoral scenery we view in passing by a modern farm. For the most part, a modern farm still looks, first and foremost, like a farm. Also, farming uses technology in different ways. While an office worker will use technology primarily to connect to others around him or her (with enterprise software, sharing of documents, posting to internet sites, and using email), the farmer's technology is primarily used internally to the farming operation – and in cooperation with the other business partners of the farm. In actuality, however, technology in farming is more complex than anything you see in a typical office.

Farming is also a vertically integrated, supply-chain dependent industry. In some sectors, you provide a service directly to others. Hospitality is a good example. Establishing and maintaining a bed-and-breakfast places you in direct contact with your end user or actual customer, and as a result, you gain a sense of the stability of the business largely from the direct interactions you have with customers. You also set your prices, and you expect a large amount of your business to come from repeat decisions by customers who want to do business with you in particular. This comes with its own risks, but largely it means that you have a direct hand in the continued success of your business through its ability to attract customers.

This is not, generally, the case in farming. Farming is a commodity industry (for the most part) and almost without exception the modern farmer is highly dependent upon a supply chain for his or her success. You rely on your feed or seed providers, breeders,

veterinarians, and other parties without whose support your farm could not function. In return, you sign agreements with other parties who consume, refine, process, repackage, or otherwise distribute, your product. Your product is a commodity as long as the person who ultimately uses it does not know that it came from you, and/or does not buy on that basis. Remember that the name on the milk bottle is not the name of a farm, but rather the name of a dairy company that contracts with farmers to provide milk.

The wonderful thing about farming as a supply-chain industry is that you are part of a team and you gain enormous benefits from participating in this manner. If you have a signed contract with a marketing and distribution organization, that entity guarantees you a market for your product.

Another unique aspect to farming that plays into this discussion is farming's process orientation. If you are an accountant preparing clients' tax returns for annual submission to the government, once that work is completed, essentially your role is finished. As a farmer, your work is never finished because farming is a regenerative process in which forward motion is always required. You can't stop milking cows because then their milk will dry up; you can't delay in harvesting this year's crops because you need time to plant for next year; you can't even let manure sit too long because you need to use it as fertilizer during a key period of time in the growing season. Everything you do today on a farm, ties to your success tomorrow. That's the reality of what 'living on the land' really means...it means that you need to constantly maintain that land and livestock because you rely upon it, and it upon you. Farmers are tied to the calendar and rooted in the seasons, but that also makes 'taking a break' a challenge since time presses on.

As a result of this regenerative, continuing aspect to farming, a farmer must have a reliable market for his or her products. Without that, products will stockpile and have to be wasted, or production will have to cease. The supply chain relationships you form help to protect you from this danger. If an organization agrees to bring a truck to your door every few days and take all of the milk that you have, and pay you for it, that gives you the stability you need in order to breathe a bit easier and focus on the farming operation itself. As a result, most farms participate in commodity marketing and distribution partnerships, many of which are cooperative in nature. Since the marketing of farm products is a specialized and highly complex field in and of itself, the task of becoming both a highly successful farmer *and* a highly successful farm products marketer, is probably too much for any one person to take on. Marketing cooperatives are shared-ownership businesses that manage the collection, packaging, distribution, and marketing of products. And of course, those products may not directly go to consumers, even then.

Some farm products are essentially packaged and shipped to stores, but others are used as food additives (i.e. corn syrup), or are processed (i.e. sugar), or are used for non-human consumption (i.e. biodiesel fuel or animal feed additives made from soybeans).

So in order to be successful in farming, you need to understand and be comfortable with the fact that other people and businesses will probably be responsible for the majority of the distribution and marketing for your products. And you don't even have that much control over the price of your product, since many food products are regulated by government agencies, cooperative marketing agreements, or both. A dairy farmer may increase his or her selling price by increasing the quality and yield of the milk he or she produces – but whatever that price is, chances are it was negotiated very tightly by the marketing and distribution organization.

Farming is also a high-risk industry. On the one hand, this goes without saying. On the other hand, risk is hard to appreciate at a distance. When we hear about weather destroying citrus crops in Florida, or the shutdown of a milk distribution and processing company in the Northeast, or a fresh spinach food-borne illness advisory coming from California, we don't immediately appreciate the impact. Since weather, capital markets, and food safety are such large issues, it is hard to grasp their impact on the volatility of farming.

Considering our earlier discussion about how each aspect of the farming cycle impacts the next one, we might see now that even if a crop that fails due to weather is insured, the fact is that the overall cycle has been seriously damaged and it could take years for the affected farmer to recover. The shutdown of a milk processing company recently happened. It began as a result of financial markets responding to financial improprieties at the parent company in Europe, which had been acquiring milk processing facilities and companies throughout the United States. When the parent firm collapsed, hundreds of dairy farmers were suddenly without a distributor for their product. Imagine knowing that consumers are eager to consume your product but that you can't get it to them because of a business crisis on another continent.

Food safety is also a complex issue because, whereas a pharmaceutical or consumer product recall generally impacts one company at a time, food safety impacts hundreds and sometimes thousands. When consumers don't know whether bagged spinach is unsafe but fresh spinach is – or whether spinach that is rinsed is okay but not if it's rinsed before packaging – they simply stop purchasing product from an entire category of food. Your products are probably not all appearing on a store shelf under one brand name in one format. Some of your product might be packaged for consumers, other portions might be processed into other foods, and still other portions might end up in non-food applications. The complexity of the food supply chain is both your asset and

your risk as a farmer, because when the supply chain is interrupted for any reason – be it weather, global economics, or safety concerns – your business could grind to a halt.

We have already alluded to the fact that farming is also a regulated industry, but it should be specifically noted. In some sectors, pricing is regulated, and in general, food safety and quality standards are regulated. The quality of your product – which often is not entirely within your control – can determine whether it can be sold, and for how much. An illness within a dairy herd or insect infestations within a crop can place you out of compliance and damage your farming business. The U.S. Department of Agriculture, the Pennsylvania Department of Agriculture, and other voluntary or supply chain partners, all have a hand in regulating your business. If you choose to sell organic products, you will need to meet stringent and highly complex regulatory requirements. Knowing the rules and how best to achieve or exceed them, therefore, will be critical to your success.

All of this brings us to the final aspect of farming that should be carefully considered, and that is cash flow. As with any business, cash flow is king. Profit on paper is meaningless if the process of reaching that success is not sustained with enough cash-on-hand to pay the bills each month. Cash to pay seasonal employees is essential lest product end up being left on the fields to rot (and that does sometimes happen). Cash to handle unexpected equipment repairs is critical if you are to have enough product produced for your next pick-up. Since farming is a capital-intensive business, that also means that you will need to vigorously ensure sufficient cash to cover your debt service. In short, financial planning and understanding the dynamics of cash management – and the stresses you should be prepared to manage as you protect your cash – is absolutely essential.

You may be asking yourself if the purpose of this summary was to encourage you to question your interest in farming, but in fact the opposite is the case. The farming field needs new, enthusiastic, first-time farmers. It is also critical, however, that those first-time farmers become successful farmers. In order to be successful, you have to be prepared, and preparation starts with knowledge and understanding.

The reason so many people in Pennsylvania share a deep and abiding passion for farming is because they believe in it. They believe that farming is the backbone of our society, that it is a viable and enjoyable business. They believe that all of the risks and challenges are undoubtedly worth the rewards that they experience. Each year, those farmers come together at the Pennsylvania Farm Show – the largest indoor agricultural event in North America – to show all of Pennsylvania's citizens the strength of their industry.

So if you believe that you share that passion, consider carefully the business realities of farming. Recognize that farming is first and foremost, a business – a business that requires entrepreneurial drive, attention to detail, preparation for challenges ahead, and an incredibly strong work ethic. If you believe you possess these traits and can plan carefully for the business realities of the farming industry, then you will be successful in a field that is not only dynamic and changing, but personally rewarding as well. Welcome to farming!

Checklist – Understanding the Nature of Farming

Farming is....

- Fast-paced
- Small on staff but highly labor-intensive
- May require outside income to support the farmer's household
- Capital-intensive
- Technology driven
- Vertically integrated
- Supply-chain dependent
- Commodity-oriented (little pricing flexibility)
- Highly regulated
- Regenerative process
- High-risk
- Dependent upon strong cash-flow management