

*Getting Started In Farming:*  
**Mostly On Your Own**





# Getting Started In Farming: Mostly On Your Own



K. H. Thomas  
Extension Economist in Farm Management  
University of Minnesota

M. D. Boehlje  
Department of Economics  
Iowa State University

R. A. Luening  
Extension Farm Records Specialist  
University of Wisconsin



Sponsored by the Extension services of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, and Wisconsin. In cooperation with SEA-Extension, USDA.



# Starting Farming Mostly On Your Own



**S**o you think you want to farm? You are in good company, as each year large numbers of people seek to go into farming—either full-time or part-time.

These prospective farmers have a wide variety of backgrounds. Some are just starting on a career; others have been working in a farm or nonfarm occupation. Some have grown up on a farm or have worked on one; others have had no farming experience.

They also have differing expectations relative to farming. Many (particularly city people) are seeking out farming as a way of life or as a way out of their present life style. They are seeking such objectives as *to be their own boss* and *to grow things*. They may also be enthralled with the idea of sharing with their families the experience of working and living together on a farm.

But, most prospective full-time farmers view farming as a business or alternative source of employment. They expect a farm to provide an income on which they can live comfortably, raise and educate their family, and perhaps build up an estate. The farm business must be competitive with alternative occupations and be able to keep up with the competition of other farms.

To be successful in achieving the ends, the prospective full-time farm family must:

- really want to farm,
- be able to gain control of sufficient resources, and
- be able to develop a practical longer-range plan and progress toward its achievement.

This bulletin is a general guide for those who are considering full-time farming, but who must do so with little or no family assistance. The discussion is built around a decision framework (section I) which focuses on the decisions as to (1) whether to farm and (2) how to best get started. Remaining sections provide a detailed discussion of the three phases noted in the decision framework. These include (1) personal and resource assessment (section II), (2) exploring entry

alternatives and deciding on one (section III), and (3) developing and implementing the entry plan (section IV).

As indicated, this publication is intended to serve only as a guide. It is not possible to include all the important information and strategies for all types and kinds of farm and family situations. But, by using this bulletin as a general road map for appraising and planning your family career, hopefully costly mistakes and disappointments may be avoided. This will involve taking the time and effort to seek out and study further information relevant to your particular situation. A number of sources of information and people are available to aid you in your search.

First, a word of caution, but also one of cautious optimism, as you begin your search. We do not want to discourage anyone who is determined enough from trying. It is important, however, to recognize that the rising capital and managerial requirements of modern farming do severely limit the number of people who will be able to successfully enter farming. Entry usually requires that one piggy-back on an existing operation. As a result, most beginning farmers today are those who can start on the home farm or can, with family assistance, build their own unit around the home farm.

Such individuals appear to have a marked advantage over those of you who must start mostly on your own. However, you should also recognize that you have more flexibility than those who must start on a given farm in a given farming area—on or near the home farm. You can be more careful in selecting who you will work with (the human side) and in locating farming opportunities that mesh with your management capabilities, interests, and financial position (the resource side). Therefore, as you prepare yourself and as you explore your entry alternatives, you should be prepared to take maximum advantage of this important asset, flexibility.



# A Decision Framework For Making A Start

**T**he first phase in deciding whether to farm and how to develop a farming career involves assessment of yourself, your family, and the resources you have or can gain access to. This phase we shall term the **personal and resource assessment** phase (see figure 1).

The personal assessment aspect revolves around the questions: Am I suited for farming? and Do we really want to farm? After taking a realistic look at what farming is like today, you may decide it is not for you. Your search has ended!

But, many of you may answer these questions with a definite yes or a more cautious maybe. The next step then is to carefully assess your management and capital resources. How adequate is your managerial knowledge and experience for today's farm business demands? If you feel your managerial know-how is inadequate, then you should consider going through a period of preparation—even though you have capital burning a hole in your pocket. This may involve formal training such as at a college or vo-tech school; working as a hired employee/manager on a good, well-run farm; or learning the ropes on your own, but on a part-time basis (part-time farming).

If your managerial capabilities appear adequate (or when they have become so), the next question is: How much capital do I have available, or how much can I gain control of? Like management, the level of capital availability will influence the method you use to gain entry into farming.

For example, if you are quite capable but have only a limited amount of capital, you may want to consider farming alternatives that make maximum use of your management capabilities without taking excessive financial risks. Here, preference might be given to starting as the resident manager of someone else's large operation.

If you have considerable capital (and management) then you can try a more capital-demanding option; for example, a joint

venture with an established operator or even start on your own from scratch. Capital availability will also influence the way resources are acquired (rental versus buying) and the enterprises chosen (dairy versus beef feeding).

Having assessed your situation (phase I) and explored your entry alternatives (phase II), you must finally decide the details of how you are going to get started and then go through the process of developing and implementing an entry plan (phase III). This will involve the development and carrying out of a longer-term entry plan.

The remaining sections of this bulletin discuss in detail each of these phases.



# A Decision Framework For Making A Start

**T**he first phase in deciding whether to farm and how to develop a farming career involves assessment of yourself, your family, and the resources you have or can gain access to. This phase we shall term the **personal and resource assessment** phase (see figure 1).

The personal assessment aspect revolves around the questions: Am I suited for farming? and Do we really want to farm? After taking a realistic look at what farming is like today, you may decide it is not for you. Your search has ended!

But, many of you may answer these questions with a definite yes or a more cautious maybe. The next step then is to carefully assess your management and capital resources. How adequate is your managerial knowledge and experience for today's farm business demands? If you feel your managerial know-how is inadequate, then you should consider going through a period of preparation—even though you have capital burning a hole in your pocket. This may involve formal training such as at a college or vo-tech school; working as a hired employee/manager on a good, well-run farm; or learning the ropes on your own, but on a part-time basis (part-time farming).

If your managerial capabilities appear adequate (or when they have become so), the next question is: How much capital do I have available, or how much can I gain control of? Like management, the level of capital availability will influence the method you use to gain entry into farming.

For example, if you are quite capable but have only a limited amount of capital, you may want to consider farming alternatives that make maximum use of your management capabilities without taking excessive financial risks. Here, preference might be given to starting as the resident manager of someone else's large operation.

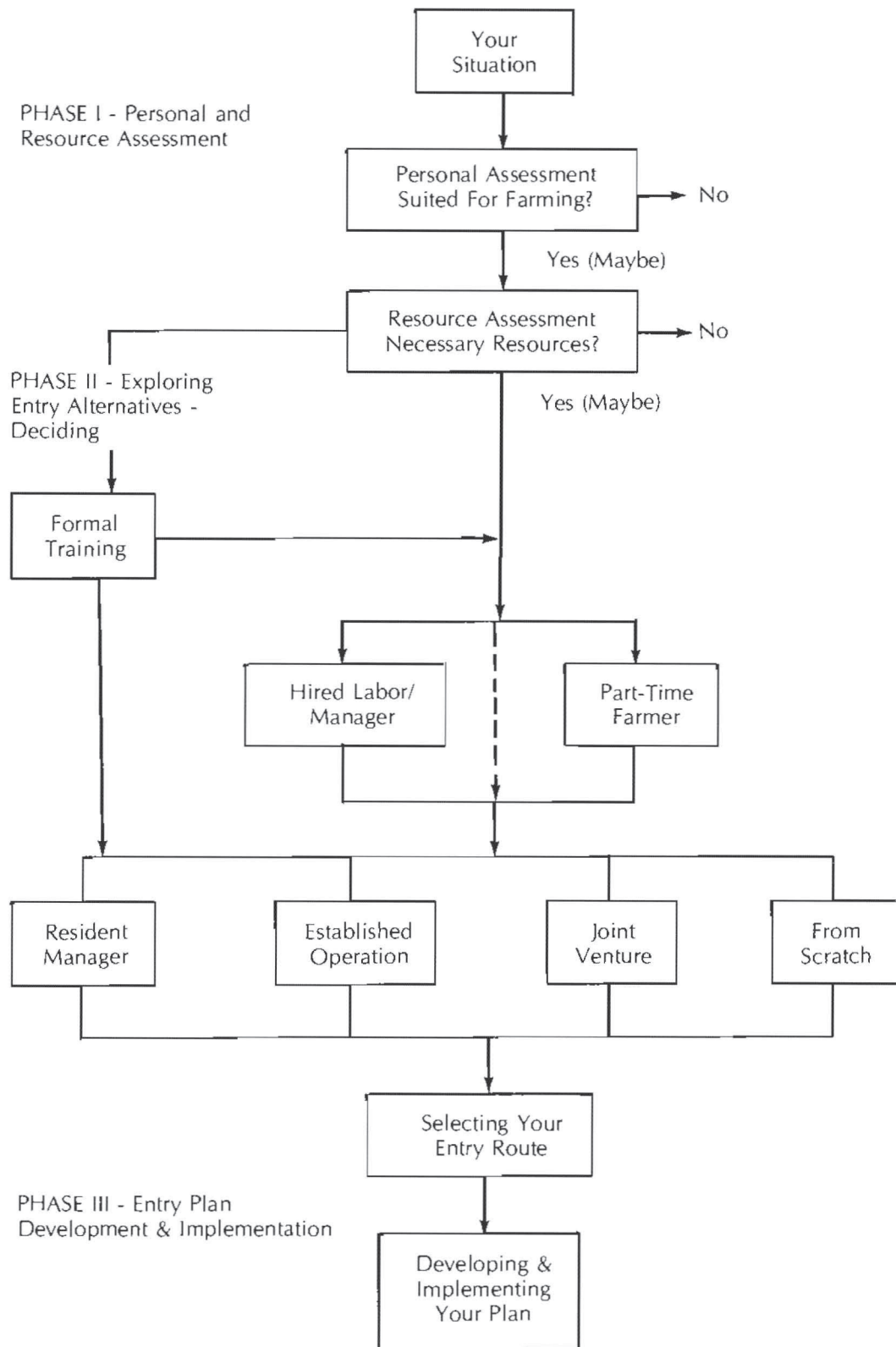
If you have considerable capital (and management) then you can try a more capital-demanding option; for example, a joint

venture with an established operator or even start on your own from scratch. Capital availability will also influence the way resources are acquired (rental versus buying) and the enterprises chosen (dairy versus beef feeding).

Having assessed your situation (phase I) and explored your entry alternatives (phase II), you must finally decide the details of how you are going to get started and then go through the process of developing and implementing an entry plan (phase III). This will involve the development and carrying out of a longer-term entry plan.

The remaining sections of this bulletin discuss in detail each of these phases.





**FIGURE 1. Starting Farming: A Decision Framework**





## Phase I Assessing Your Personal Desires, Qualifications, and Resources

**T**his section is designed to aid you in assessing whether you are suited for farming (personal assessment) and whether you have (or can gain control of) the necessary resources to make a successful entry into farming (resource assessment). This assessment should help you make at least a tentative decision relative to your opportunities in farming—to *make the first cut*. If it appears that you shouldn't even try to start farming, all is not lost as you will have saved a lot of time and possible heartache. If it appears that your situation is a "yes," or at least a "maybe," you will be in a much better position to appraise your entry alternatives (phase II).

To provide you with some criteria for assessing your situation, we shall first put forth some generalizations about the opportunities and requirements of modern farming.

### What Opportunities Are Available?

At first blush, one might conclude that a golden age is at hand in terms of the relative number of farming opportunities. For example, in Iowa, entry opportunities are not as numerous in absolute numbers as they were 20 years ago but entry opportunities are higher as a percentage of total farm employment opportunities and will remain so until 1985, a study by Julius indicates.<sup>1</sup>

This increase in relative farming opportunities is caused by the fact that in 1940, forty percent of the rural farm males between 20 and 65 years of age were men under 35 years of age. This preponderance of men that were young at that time is resulting in the release of large numbers of farm openings through retirement today.

However, the competition for these increased opportunities will be keen. High birth rates during the 1950s and early 60s will provide three to four times as many farm boys reaching the age of 20 as there are farming opportunities. Add to this the

fact that many existing farm businesses are in a very strong position to expand or add resources as a result of inflation in land and machinery values and the bonanza earnings of the mid-1970s. Farming also has become a much more attractive occupation to both farm and nonfarm youth.

Thus, the number of people competing for farming opportunities is very high and those having a good home farm business to piggy-back on are in the strongest competitive position. Those of you who must start with little or no family assistance must recognize that your opportunities are limited at best. You should also recognize that the quality of farming opportunities is becoming more variable and the good opportunities are becoming harder to get for the person who is low on capital.

### What are the Requirements

There are no legal obstacles to becoming a farmer—no examinations, no set educational requirements, no licenses. Anyone who wishes may try. Substantial barriers to an otherwise legally-free entry into farming do exist, however. These barriers include ever-increasing amounts of land, machinery, livestock, and other capital; plus exceptional managerial ability to put them together into an efficient and profitable unit.

#### Capital Requirements Rising

Farming in the United States has undergone many marked changes in recent years and is still changing rapidly. As late as 1940, labor still accounted for over half of the resources used in farming. Today, labor accounts for less than 20 percent of farm resources, being replaced by a sharp increase in the use of capital.

This adjustment has fostered much larger farms and bigger investments in land and equipment as well as operating capital. The average size of farm has increased from about 175

<sup>1</sup>Julius, Marvin, *Entry and Expansion Opportunities and the Human Cycle in Agriculture*. Paper presented at Conference on Economic Issues



acres in 1940 to about 400 acres today; capital investment per farm has risen from about \$7,000 in 1940 to about \$220,000 today. (In 1967 constant dollars, there has been more than a three-fold increase in investment per farm since 1940—from about \$29,000 in 1940 to about \$95,000 in 1978.) Farm records show that investments per farm are doubling in size each decade.

Thus, would-be farmers who are short of capital must look for an opportunity that will make the most efficient use of their labor when combined with their capital.

Two key questions come to the fore: (1) how

much land is required to provide full and efficient employment for one man's labor and (2) how much capital must be invested in machinery, equipment and other items to make an efficient operation? Obviously, the exact amount will vary by types of farm and area of the country. It will also vary by family: the levels of efficiency the family attains in the use of resources and the income drain the family's level of living and debt repayment places on the business. Table 1 illustrates the relative amounts of land and other capital required for full employment. Levels of efficiency that should be attained on the major enterprise are also noted.

**TABLE 1. Land and Other Capital Required for Full-Employment (2800 hours), Various Types of Farm.\***

	Land (Acres)	Livestock	Machinery and Equipment Investment	Livestock, Feed and Operating Capital	Income Above Variable Costs	Efficiency Level (Major Enterprise)
Dairy - Grade A - Wisconsin	120	30 cows	\$30,000	\$38,000	\$26,000	13,000 - 14,000# per cow
Farrow Finish Hog - Corn Belt	200	100 litters	\$49,000	\$43,000	\$32,500	7.5 pigs/litter
Hog Beef Finishing - Corn Belt	200	60 litters, 100 steer calves	\$49,000	\$65,000	\$28,500	7.5 pigs/litter
Cash Grain - Corn Belt**	450	—	\$90,000	\$20,000	\$24,000	100 bu. corn; 32 bu. soybeans
Wheat - Sorghum - Beef Backgrounding - Great Plains	800	200 steer calves	\$90,000	\$110,000	\$26,000	30 bu. wheat; 55 bu. sorghum

\*Estimates of resource requirements are based on enterprise budget data used for farm planning purposes; see for example, Stoneberg, E. G., James McGrann and William Edwards, "Suggested Farm Budgeting Costs and Returns- 1978-79", FM-1186, January 1978, Cooperative Extension Service, Iowa State University, Ames.

\*\*Requires only approximately 2100 hours per year, but the seasonal labor requirements in the planting and harvesting periods make it difficult to handle more acreage without hired labor.



### **Managerial Requirements Rising**

As farms have become larger and more complex, the managerial requirements have risen sharply. This has also changed the emphasis on qualifications a farmer should have. Successful use of modern farming methods requires a high degree of technical knowledge and skill. Successful handling of large investments and cash flows in the face of high and rising cost, uncertain product prices, coupled with weather and other production risks, requires expert business and financial skills. For most crop and selected livestock farms, marketing skills are also very important.

### **The Need to Piggy-Back**

Because of the marked shift from a land/labor oriented farming to one dominated by high capital and managerial requirements, entry requirements have risen to the point where successful entry into farming requires that one normally piggy-back on an existing farming operation—at least in the early going. Such arrangements may involve assistance from a family member such as the use of machinery or co-signature on a note. Certainly there are exceptions to this rule, but it takes an exceptional manager or situation to gain entry strictly on your own.

### **Rewards: Improving, but Variable**

Like any industry where the entry requirements are rising, the economic rewards of farming are improving—on the average. But with the increased size and risks involved has come greater and greater variation in the rewards received. Some families have been very successful; others have fared poorly. Furthermore, the new entrant and his family must be willing to take risks and adapt their living style to the variations in income that are part of farming.

## **Does Farming Fit You and Your Situation?**

We now turn to the task of assessing whether you are suited for farming (personal assessment) and whether you can gain control of the resources required for a successful entry (resource assessment).

### **Would You and Your Family Like It?**

There is no one test that you can take that will tell you definitely whether you are suited for farming. Going out and trying it may be the only way to find out. But answering questions such as the following may help you in making at least a tentative decision as to whether farm life is for you.

### **Do you like farm work and farm life?**

Do you like to work on an uncertain schedule that often involves long, hard hours? Do you like to work alone and make your own decisions or do you need a committee? Are you a self-starter who can see things to do and gets them done on time? Can you stand uncertainty and set-backs? Do you have the patience to operate in a situation controlled largely by someone else—a banker, a landlord, an established farmer—at least in the early years of your farming career?

Farming is usually a family effort. Do your spouse and children like farm work? Does your spouse realize that farming is not an 8:00 to 5:00 job? That weekends often become part of the work week and the usual work week becomes part of the weekend? Will your family members be willing to make sacrifices in the early going so that the business can become successful?

### **Do you like rural living?**

Do you mind living where “next door” may be a mile away? Do you like small towns where everybody knows everybody and their business and personal affairs? Where schools, health services,



shopping centers, and cultural events are often less adequate than those available in cities? Where community decisions are often made on a consensus basis?

You certainly can add to this list of questions. After answering each of them, however, you must eventually add up the score: Am I suited for farm life and rural living? If the answer is no, your search has probably ended. If it is yes, or even maybe, you will need to also appraise your managerial and resource situation.

### **Do You Have What It Takes?**

To be successful over time in modern-day farming you must have managerial potential as well as training and experience. Take time now to make a careful, realistic appraisal of your management capabilities.

Do you have the necessary managerial potential? Here, you are trying to determine whether you have some of the general characteristics of a good manager. Are you a manager or strictly a doer? It takes a lot of both in farming. But to be a successful manager you will have to be able to answer an honest yes to questions like the following:

- Do you like to work? Are you ambitious and aggressive? Are you willing to face uncertainty and risk and accept responsibility?
- Are you goal oriented? Are you disciplined? Can you set priorities? Are you able to set realistic goals? Do you feel as though you can achieve whatever you put your mind to.
- Do you like to solve problems? Make decisions? Are you able to anticipate problems? Are you willing to take time to think through problems, keep up with new developments, and seek the best advice possible? Are you willing to make a decision and take action, even though you're not 100 percent sure of the outcome?
- Can you set your own pace? Can you decide how much you want to accomplish and when? Do you work when you work; play when you play?

Have you had adequate managerial training and experience? It isn't enough to have managerial potential. To insure a reasonable chance for success in today's farming, you should have had some prior farm training and experience before attempting to operate your own farm. Therefore, you must be honest with yourself: Will I feel comfortable stepping into the management of a farm unit at this time? Or, do I need some further formal training or on-the-farm experience in order to learn more about the production, financial and marketing dimensions of the type of farming I am considering?

Again, there is no sure test that you can take to say whether you are ready or not. But remember, managerial requirements are high today. Creditors and landlords will be looking at your management credentials. Of course, there may be a trade-off between the amount of resources you have (or can gain control of) and your management skills. The problem is that unskilled managers can lose control of these resources in a hurry. Therefore when in doubt, get more preparation—at someone else's expense.

### **Do You Have Access To Sufficient Resources?**

There are at least three dimensions to consider in appraising your resource situation. These include: (1) the capital required by the farming situation you are considering, (2) the capital you have available or have access to, and (3) your ability to borrow and service debt.

Capital requirements vary widely with the entry alternative you are considering. For example, capital requirements are much lower when starting as a resident worker/manager than if you had to start farming from scratch on your own. Likewise, the way resources are acquired (rent versus buy) and utilized (dairy versus beef cows) influences the amount of capital required.

The capital you have available includes your equity (net worth) and any family or other support

or assistance. The latter may include a family member signing a guaranteed loan, etc. The assistance may also take the form of property, such as exchanging labor for the use of machinery.

Your credit worthiness depends on your character as well as your equity position and ability to service debt. Since most beginning farmers have limited equity, they must rely more heavily on character and ability to repay debt from income when justifying a credit request.

Consequently, a history of meeting financial obligations on time and an ability to develop realistic projections of income and expenses (cash flows) will be key attributes for the beginning farmer. Ability to use scarce resources effectively in generating needed cash flows and evidence of success in keeping family living demands in check also affect the amount a lender is willing to loan to you and the debt you can service. Income from off-farm employment may also be an important source of cash for debt servicing for the beginning farmer.

The meshing of your situation and the requirements of various entry alternatives will be discussed in the next section. Suffice it to say here that if you have very limited financial resources available to you, then you should be looking for ways to use your management capabilities to the full without incurring undue financial risks. If your financial position is considerably better, you can view a much broader set of options.

The key question for right now is: Can I gain access to sufficient financial resources now or in the foreseeable future to permit me to farm under the entry alternatives I am willing to consider? You may decide that the entry requirements are just too high or you are not willing to make the necessary sacrifices. Or, you may say, "yes, we can make it," or at least say, "maybe we can't."

### **Adding Up the Score: Making the First Cut!**

Have you made the first cut? Did you find that you were suited for farming? Do you feel that you

have sufficient management potential to compete in today's farming? Do you have access to sufficient capital resources? If not, then your search for a farming career has probably ended.

If you answered a definite "yes" or even a "maybe" to each of the questions, then you will need to explore your alternatives for gaining entry into farming.



## Phase II Exploring Your Entry Alternatives and Selecting Ones To Use



**B**y now you have decided that you are at least somewhat suited for farming. You may have some doubts but at least you want to continue looking. And, the assessment of your capital and management situation has caused you to place yourself in one of four categories:

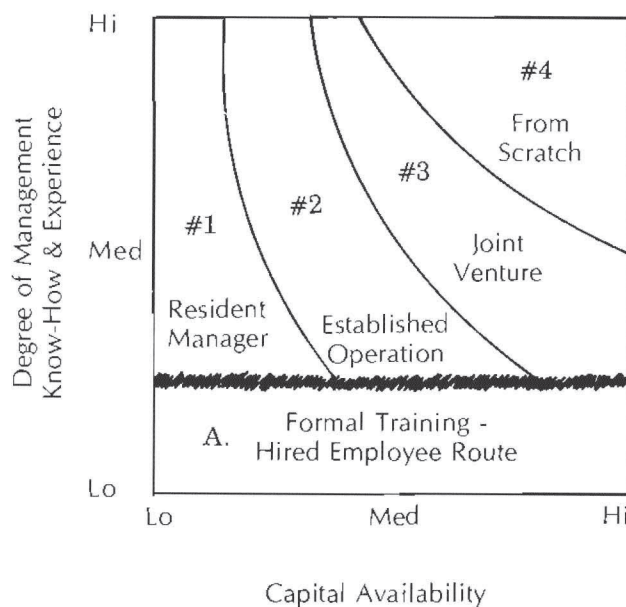
- #1 - Limited Experience/Limited Capital
- #2 - Limited Experience/Some Capital
- #3 - Considerable Experience/Limited Capital
- #4 - Considerable Experience/Some Capital

The next step is to explore your entry alternatives and decide which one is best for your situation. Figure 2 is designed to aid you in matching your entry alternatives with your resource situation.

As suggested in Figure 2, if you have had very limited farm experience or knowledge of farming (and are somewhat undecided about farming as a career), you probably should go through a so-called preparation stage (A). If you are beyond that stage, you can begin looking at the major entry alternatives open to you. We shall now describe and evaluate these various alternatives.

The four management/resource situations listed in the text form the four vertical sections of this diagram. For example, persons with limited managerial experience and limited capital (situation #1) would choose the left hand section in the diagram. Persons with considerable managerial experience and capital (situation #4) would choose the upper right section.

As suggested by the diagram, if you are very limited in management and experience you should consider going through a preparation stage. This may involve formal training, employment as a hired man or possibly part-time farming. With this preparation stage behind you, and if you are still short of capital, you may want to consider becoming a resident manager for a large operation, or continuing as a part-time farmer. If you have considerable farm experience and know-how but



**FIGURE 2**

are relatively short of capital, you may want to look for an established operation, either on a sole-manager, rental basis or on a co-manager, partnership basis.

If you have somewhat more capital available, but would have difficulty developing an adequate unit on your own, you probably should be looking for an established operation or a joint venture situation where you can piggy-back on an existing unit. This may involve the exchange of labor for machinery or the joint ownership of major machinery items. If your management and capital resources are fairly plentiful you may be ready to establish your own unit from scratch.



## Alternatives for Getting Prepared for Farming

In taking this first step toward entry into farming, you should have two objectives in mind: (1) to become better prepared and (2) to become known as a good, hardworking prospective farmer. This preparation stage may include formal as well as on-the-job training.

### Formal Training

If you feel you need more preparation for farming, you may first want to secure some formal training at an agricultural college or vocational school (see Figure 2). To be most useful, such training should be broad-based, exposing you to the production, mechanical, financial management, and marketing aspects of farming. Your local county agent, vocational-agriculture instructor or state agricultural college can help you in deciding what your options are and what would be best for you. You will also be able to supplement this formal training by attending local Agricultural Extension Service meetings, schools and workshops, as well as educational events of other public and private groups.

### On-the-Farm Training

In attempting to secure more on-the-farm training there are two routes that might be followed: (1) the farm employee route and (2) the part-time farm route.

*Route #1 - Employee on a good farm.* If you choose to go this route you should select the farming area and farming situation carefully. First, select a good farming area—one that has good resources and markets and will be competitive over time. Then select a good farm that involves the type of farming you are interested in. The farm should be run by a good, respected manager who is willing to let you assume some responsibility over time.

Of course, it isn't always possible to find the

perfect situation. However, keep in mind that there are at least four things you are trying to accomplish:

1. Become better trained as a manager.
2. Become better known in the community as a good worker and a good manager.
3. Accumulate some equity—primarily show you can manage money effectively.
4. Decide whether you really want to farm.

Becoming a “hired man” on just “any old farm” will not do the job, unless you are just plain lucky or a good manager to begin with.

*Route #2 - Part-time farming.* Part-time farming may serve as an alternative route for achieving the objectives noted above. It may also serve as a hedge or a bridge—you can keep your present non-farm job (or some job) and still do some farming. However, you will have to work at it to make sure you are becoming a *better* manager and that you are becoming known as a good farmer. Too often part-time farmers remain part-time farmers rather than becoming fuller-time farmers with a part-time off-farm job. They get accustomed to a good family living and hesitate to give up the security they have acquired in their nonfarm job. For further information on establishing and managing a part-time farm, see North Central Regional Publication No. 83.

## Alternatives for Getting Started in Farming

Just as the worker in town may have as his ultimate objective to own his own home, the typical prospective farmer generally has owning and operating his own farm as his ultimate objective. However, with today's high entry requirements, ownership of the farm may be many years down the road for many prospective farmers.

The question then is what are some alternative ways that prospective farmers can get started.



Though there are others, we shall discuss four major routes noted in Figures 1 and 2. We will describe each alternative and indicate some of the advantages and disadvantages, and the situations where they would best fit.

#### **Alternative 1:**

##### **Resident Manager of a Large Operation**

One strategy for entry that may be particularly appealing if you have had little farming experience is to become a resident manager of a large established farm operation. As farm businesses grow bigger, additional managerial talent is frequently required. This may be in the form of a herdsman for a particular phase of the business such as the dairy enterprise, or the hog or cattle feeding operation, or overall manager of the entire farm business under the supervision of the owner.

If you begin as a management trainee or herdsman for a particular enterprise, such as the hog or cattle operation, your responsibilities will include the day-to-day tasks of any employee assigned to this enterprise, along with decision making responsibility and authority for scheduling the work tasks and making sure that they are accomplished.

The experience gained at this level would be primarily in the production dimensions and production technology of the enterprise, but this experience is essential for efficient management of any farming operation. Once experience is obtained at this level, the individual would hopefully acquire additional responsibilities and authority, including the scheduling and management of other employees. Such a foreman's position would involve responsibilities in scheduling and carrying out day-to-day farming activities and allocating manpower to various enterprises. In such a position, you should learn to take advantage of the timeliness of operations, particularly in crop production, and how to assist in longer-run decisions such as varieties of corn to

use, fertility programs, breeding programs for livestock, and ration formulation. Eventually, an individual may become the resident manager of an operation having ultimate responsibility to the owner for implementing short-run operational plans as well as long-run plans for acquisition of inputs and marketing of products, capital investments and financing of new purchases.

An advantage of the resident manager approach is that it can give you experience based on the latest technology in agriculture. It is important that you choose an operation which is up-to-date and uses new technology if you seek experience by this route.

Another major purpose of using this route for entry is to obtain knowledge of marketing and financial decisions. So a note of caution: Choose a farm whose owner is looking for someone with managerial talents and who will give you management authority and responsibility. Avoid an operation that is simply looking for a "hired hand" to carry out the day-to-day farming activities.

In some cases, the resident manager's role will be so challenging and the rewards so high that some of you may decide to remain in this role throughout your farming career. But for others, the question will eventually arise as to when you should resign from the manager position and establish your own operation.

One approach is to accumulate sufficient funds to acquire a smaller established farming operation when the opportunity arises and you feel that you have obtained sufficient experience to run your own operation. A second alternative is to use a phase-in approach. You use accumulated savings to purchase a piece of land of your own or purchase key machinery items and lease them to the operation you are managing until you are able to resign as a manager and spin off on your own. The advantage of this approach is that if inflation continues and the value of assets such as land continues to rise, it may be possible to acquire



control of some of these resources earlier at a lower price than if you delay purchases until you are ready to go off into your own operation.

An additional issue that frequently must be faced if the resident manager approach is used is proper compensation. An individual with managerial capabilities should expect to receive more compensation than one who is just carrying out the day-to-day farming activities. Some owners offer incentive programs for their managers. If the incentive payments are made in a cash form, problems usually are not encountered when the manager decides to go into his own operation because he can take the cash with him. However, in some cases the incentive payment is not made in cash. It is allowed to accrue in the form of shares of ownership in the farming operation. In this situation, an equitable arrangement is needed for liquidating shares of ownership if and when the manager wants to launch out on his own.

In summary, a key advantage of the resident manager approach to entry is the opportunity to obtain experience and knowledge without having to commit one's own capital. Such an approach may be particularly appealing to an individual who has strong formal training and motivation but limited capital and practical experience.

The resident manager approach may offer you the satisfaction of working with a larger unit than would be possible if you were on your own. However, you must be well aware of the problem of spinning off from such an operation to your own smaller unit. The adjustment may be difficult for both you and your family since it may require a change in lifestyle as well as farming technique, scale of operation, and risk.

#### **Alternative 2: Established Operation**

On occasion, a prospective farmer has an opportunity to step in as a manager or co-owner of a farming unit that is fully equipped and ready to go. The business is available because of illness,

disability or death of the original farm operator, the lack of a farming heir, or for other reasons.

Such a situation should prove particularly attractive to the experienced manager who is relatively limited on capital. (If the situation involves co-management, the level of managerial experience of the prospective farmer can also be less.) The basic resources needed are in place. Over time, the manager of such a unit can begin buying into the business and build equity to the point where eventually control is obtained over the operation.

However, care should be taken to ensure that the unit is large enough so that the prospective farmer can make financial progress. Opportunity should be provided for the prospective farmer to buy into the operation—at least into the personal property. If, after a short testing period, it appears that this is a good business unit and the parties can get along, then longer range objectives and plans should be developed. Is the owner willing to let you buy in? Can you secure options to buy?

Normally, some type of share arrangement should be established in the early going. This might include a crop-share or a crop-livestock share arrangement or a partnership. The share may be based on the custom of the area or on the basis of sharing income according to contributions. Over time the share may shift to a 50/50 and eventually to a cash rental situation as the manager acquires ownership of the personal property and possibly part of the real estate.

#### **Alternatives 3 and 4: Joint Ventures or Starting from Scratch**

The other two alternative entry methods are closely related. The "starting from scratch" alternative involves putting all (or much) of the resources together yourself, with assistance only from your creditor or friendly landowner. Under today's conditions, this option is generally feasible only for the exceptional manager with considerable equity of his own. Occasionally, the



exceptional manager (and family) can do it with limited equity following the part-time farming or part-time off-farm work approach. If the family is serious about farming, then the latter emphasis is preferred: part-time off-farm employment to augment family and business income needs.

For many, the more realistic way to start is to piggy-back on someone else's operation (joint venture approach). This may be an outgrowth of your preparation stage, where you have worked for a good farmer and he is willing to help you get started on your own. This might involve an exchange of labor for his machinery or even the rental of some of his land.

It may involve starting on a part-time basis and becoming acquainted with a good neighboring farmer who is willing to share his equipment and management know-how and get you started in a good livestock operation. It may also represent an outgrowth of a resident manager situation, as described earlier.

These two options involve more flexibility or fewer constraints as to farm organization, enterprise selection, and marketing plans than the alternatives discussed previously. Consequently, more decisions must be made in the implementation phase (Phase III), as will be discussed later.

## **Weighing Your Entry Alternatives and Deciding**

This is a highly judgmental task. It involves selecting the entry alternative(s) which best squares with your managerial and capital situation and your longer-term career objectives. In other words, it is primarily a job of meshing Phase I and Phase II of our decision framework.

There appear to be two approaches to this meshing activity: (1) select the community where you want to farm and then sort out the farming

opportunities available and select the one that best fits your situation or (2) select the entry route that best fits your situation and then look for that type of farming opportunity wherever you can find it, in your state or another.

As noted at the outset, one advantage you have if you are starting largely on your own is that you don't have to farm within easy farming distance of dad's place. So, you may want to use the second approach—selecting the desired entry alternative, regardless of its location—as long as it is in a good farming area.





## Phase III Developing and Implementing Your Entry Plan

Once you have decided on a way to gain entry into farming, the final task is to develop a longer-range plan and start working on it. If you expect to be in the preparation stage for a while, then it is a matter of selecting the right school or curriculum if you need formal training; selecting the right farming situation if you are to be a farm employee; or finding a modest-sized farm business if you are going the part-time route. If you are planning to enter via the resident manager or established operation route, then it is a matter of finding the right situation and setting up a

workable agreement—one that helps you to gain experience and equity.

But the entry alternatives requiring the greatest amount of farm business planning (enterprise selection, resource acquisition, and financial and marketing strategy) are the situations involving either a joint venture (piggy-back arrangement) or starting from scratch. Therefore, the major emphasis in this section will be on the development and implementation of entry plans for these two situations.

### Some Fundamentals

Following are some fundamentals that the young farmer starting mostly on his own should be aware of:

1. Most successful businessmen did not start at the top. Therefore,
  - Don't try to get too big too soon. Develop your unit over time, keeping its size consistent with your management skills and financial position.
  - Establish a good track record as to your ability to generate and manage income.
  - Have longer term goals that you are shooting for with plans for attaining them.
2. Most beginning farmers are long on labor and short on capital. Therefore,
  - Allocate scarce capital to items that bring high return to capital invested (ex. fertilizer versus land)
  - Piggy-back when possible to reduce pressure for capital, plus provide 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-around use of labor supply (e.g. dairy, hogs).
  - Gain control of resources in ways that will give good returns and make effective use of leverage, yet protect the liquidity position of business (e.g. crop share rental). Cash flow demands as well as risk of large losses should be minimized.
  - Manage risks carefully. Employ insurance, marketing strategies, and possibly diversify operations.



3. Over time, capital availability will depend upon management capability.

- Establish a good production and financial record. Don't try to run too fast.
- Spend time becoming a better manager; develop your production, marketing, and financial skills.
- Secure management help when possible—adult vo-ag, creditor, professional

manager, good farmer.

4. Keep fully employed. Keep family living costs in bounds.

- While the unit is being developed, full employment may require off-farm work.
- Usually the starting family must sacrifice their standard of living to a substantial degree or no financial progress will be made.

## Illustration of a Long Range Farm Plan

Results of a recent farm management study relating to getting started in farming in the corn belt<sup>1</sup> will be used to illustrate the importance of long range planning in exploring your entry alternatives. In the study, several four-year farm plans were developed depending upon the farm operator's willingness to take risk; these are summarized in Tables 2 to 4. In each case it was assumed that the family had a beginning cash position of \$20,000, an opportunity for the wife to work off the farm at a salary of \$8,000, and an upper limit on the debt-to-net worth ratio of 1.0.

One possible plan for the beginning farmer is identified in Table 2. With this plan all land is

rented on a crop-share basis. Land rental ranges from 384 acres in the first year to 453 acres in year four. The land is used primarily in corn and soybean production. About 40 litters of hogs are farrowed in the first three years and 31 litters in year four. (Hog production declines in year four because of increases in corn and soybean production.) With this plan, the farm wife works off the farm for all four years at a salary of \$8,000. The initial \$20,000 of equity capital along with almost \$12,000 of debt is used to buy a moderate set of machinery and partial confinement farrowing and finishing facilities.

The net worth for this situation increases from \$20,000 to almost \$86,000 by the end of the fourth year. Although family income is approximately \$14,000 in the first year, it increases to almost \$28,000 by the fourth year. Family living expenses

<sup>1</sup>Kaiser, Eddie, "An Economic Evaluation of Financial Strategies Used By Beginning Farmers to Enter Agriculture," Ph.D. thesis in progress, Iowa State University, Ames, Iowa.

are \$10,000 in the first year but increase to \$15,150 by the fourth year with this plan. The chances of a loss from farm and nonfarm sources (family income less than \$0) because of low commodity prices, poor yields due to drought, disease, or weather are almost negligible with this plan. The chances of income being less than \$8,000 are 1 out of 4 for the first year with this plan, 1 out of 10 for the second year and almost 1 in 50 in years three and four.

Plan 2 includes even less risk than Plan 1. Note that less land is rented compared to the earlier plan, but again all of the land is crop-share rented. Land acreage totals approximately 260 acres during all four years and most of the land is used in corn and soybean production. (However, some oats enter this plan as part of the crop rotation.) Approximately 100 litters of hogs are produced annually during all four years in a partial confinement facility. Note that

**TABLE 2. Projected Four Year Entry Plan with Moderate-sized Crop and Hog Enterprises**

Plan 1:	Year			
	1	2	3	4
<b>Cropping Plans</b>				
Acres Crop-Share Rented	384	415	421	453
Acres Cash Rented	—	—	—	—
Corn	245	257	243	260
Soybeans	139	158	178	193
Oats	—	—	—	—
<b>Livestock Production</b>				
Litters Farrowed	42	42	42	31
Hogs Finished	26	250	237	235
Feeder Pigs Sold	255	99	98	56
Gross Farm Income				
Net Cash Farm Income	\$ 6,176	\$10,340	\$15,340	\$ 19,860
Off-Farm Income	8,000	8,000	8,000	8,000
Total Family Income	14,176	18,340	23,340	27,860
Family Living Expense	10,151	11,830	13,340	15,150
Income Avail. for Debt Serv.	4,025	6,510	9,700	12,710
Total Debt	11,993	16,211	20,091	25,481
Years to Repay Debt	3.0	2.5	2.1	2.0
Total Farm Assets	\$46,642	\$69,354	\$88,841	\$111,564
Net Worth	34,649	53,153	68,750	86,083
Debt as % of Assets	25.7	30.5	22.6	22.8
<b>Risk: Chances of Family Income Being Less Than (%)</b>				
\$0	6	2	0	0
\$8,000	25	12	2	2



approximately 80 percent of these hogs are sold as feeder pigs rather than being finished on the farm. The operator allocates his time to the farm operation, but his wife is again employed in town for all four years.

The financial progress for this operator as summarized in Table 3 is not as rapid as with Plan 1; net worth increases from the initial value of \$20,000 to approximately \$64,000 by the end of the fourth year. Note that family income and

living expenses are both very low in year one with this plan, but then increase significantly in the second year, and by the fourth year the operation is generating approximately \$23,000 of income and a family living level of approximately \$13,500. The risk of generating a family income that is less than \$8,000 is very high with this plan for the first year (almost 9 chances out of 10), but after the first year the chances are zero that less income than \$8,000 will result.

**TABLE 3. Projected Four-Year Entry Plan With Somewhat Smaller Crop Acreage and Larger Hog Operation With Feeder Pig Emphasis.**

Plan 2:	Year			
	1	2	3	4
<b>Cropping Plans</b>				
Acres Crop-Share Rented	260	262	262	262
Acres Cash Rented	—	—	—	—
Corn	129	156	156	154
Soybeans	70	53	53	54
Oats	61	53	53	54
<b>Livestock Production</b>				
Litters Farrowed	98	100	100	100
Hogs Finished	125	164	164	164
Feeder Pigs Sold	527	633	636	640
Gross Farm Income				
Net Cash Farm Income	\$ -4,885	\$9,932	\$14,390	\$15,056
Off-Farm Income	8,000	8,000	8,000	8,000
Total Family Income	3,115	17,932	22,390	23,056
Family Living Expense	4,335	11,670	13,305	13,504
Income Avail. for Debt Serv.	-1,220	6,262	9,085	9,552
Total Debt	20,571	9,279	9,652	8,479
Years to Repay Debt	—	1.5	1.1	0.9
Total Farm Assets	56,412	54,867	64,355	72,286
Net Worth	35,661	45,588	54,703	63,807
Debt as % of Assets	36.5	16.9	15.0	11.7
<b>Risk: Chances of Family Income Being Less Than %</b>				
\$0	17	0	0	0
\$8,000	93	0	0	0

**TABLE 4. Projected Four-Year Entry Plan With Smaller Crop Acreage And Moderate Sized Complete Hog Operation.**

Plan 3:	Year			
	1	2	3	4
<b>Cropping Plans</b>				
Acres Crop-Share Rented	148	215	215	215
Acres Cash Rented	—	—	—	—
Corn	116	215	215	212
Soybeans	16	—	—	1
Oats	16	—	—	1
<b>Livestock Production</b>				
Litter Farrowed	36	67	67	68
Hogs Finished	212	455	455	454
Feeder Pigs Sold	136	245	241	245
Gross Farm Income				
Net Cash Farm Income	\$ -8,000	\$ -2,197	\$9,462	\$10,632
Off-Farm Income	8,000	8,000	8,000	8,000
Total Family Income	0	5,803	17,462	18,633
Family Living Expense	4,000	5,951	11,485	11,938
Income Avail. for Debt Serv.	-4,000	-148	5,977	6,694
Total Debt	5,540	16,952	6,887	6,059
Years to Repay Debt	—	—	1.2	0.9
Total Farm Assets	37,109	60,962	56,888	62,368
Net Worth	32,569	44,010	50,001	56,309
Debt as % of Assets	14.9	27.8	12.1	9.7
<b>Risk: Chance of Family Income Being Less Than %</b>				
\$0	50	0	0	0
\$8,000	100	100	0	0

Finally, Plan 3 (Table 4) includes even less risk but also less potential for financial progress. The farm includes 148 acres in the first year and 215 acres in years 2, 3, and 4. Most of the acreage is used to produce corn. A total of 36 litters of pigs are farrowed in the first year and approximately 67 litters in years 2 through 4. In contrast to earlier plans, 60 to 65 percent of the pigs farrowed are also finished on the farm. This plan uses less debt than the previous plans, and net worth increases to approximately \$56,000 by the end of the fourth year.

Family income is zero in the first year (off-farm income just offsets farm losses), but increases to \$18,632 in the fourth year. Family living expenses increase from \$4,000 in the first year to almost \$12,000 in the fourth year. The chances of income being less than \$8,000 are 10 out of 10 in the first two years, but after the second year the chances of family income being that low are zero.

The operator who is willing to take less risk will not have as high a living standard but his probability of losing money is very low because of the combination of diversification in crop and livestock enterprises and the nonfarm income generated by the wife's off-farm employment.

## Developing Your Own Entry Plan

With these fundamentals and illustrations as background, you will now need to develop your own entry plan. You will first want to evaluate the resources required and relative profitability of some of the farming options. The planning forms in North Central Regional Publication 34-3, *Where Do I Want To Be?* would be useful here. Your State Extension Service, local financial institutions and others will likely also have forms useful for this purpose.

The next step is to develop plans to accomplish your entry goals. First, project the production and investment plan on a yearly basis over the next three to five years. Then check the financial feasibility of the plan by projecting cash flows, profit, and net worth statements for each of the years. Once you have a production, investment, and financial plan that meshes well, you will likely need to project a monthly cash flow for your first year. For this, the planning forms in North Central Regional Publication 34-4, *How Can I Best Get There From Here?*, will be useful. Again, you will likely be able to secure similar forms locally, as noted above.



## **Implementing and Controlling Your Plan**

Once you have developed a workable entry plan—one you are comfortable with and convinced will work—the next steps involve (1) getting resource suppliers to go along with you, and (2) keeping track of results.

### **Getting Someone to Go Along**

Since one of your major tasks will be to gain control of resources, one of your key jobs will be to convince suppliers of your capabilities and the merits of your plan. These include creditors, landowners, and other investors or suppliers.

The “proper care and feeding” of resource suppliers involves (1) early contact so that they have sufficient time to consider your proposal; (2)

careful presentation of your plan, as well as your past performance, present resources, and objectives; and (3) once the resources have been supplied, keep your suppliers informed.

### **Keeping Track of Results**

After the plan has been implemented, keeping track of the results is a major task. Good records will help you in monitoring your progress toward accomplishing your objectives and implementing your plan. With these results you can decide whether to make adjustments to get back on track or to adjust the original plan.

Developing a good record of your progress will be helpful to you as you look ahead 5 to 10 years. It will also provide the track record which is so important to resource suppliers as they evaluate your present situation and future requests.

In cooperation with NCR Educational Materials Project.

---

Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture and Cooperative Extension Service of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. Leonard C. Douglas, Acting Director, Cooperative Extension Service, University of Missouri and Lincoln University, Columbia, Missouri 65211.