

Abstract

Many farmland owners opt to work directly with farmer-tenants while others choose to hire a professional farm manager to assist in the management of their land. As absentee landownership increases and more landowners become less associated with farming, professional farm managers have increased opportunity to communicate their role to potential clientele. Some landowners have an opportunity to make the most of their situation by enlisting the services of a professional farm manager, but only if they know what can be expected from a professional farm manager. We discuss some of the benefits and disadvantages to landowners and tenants of professional farm management and how professional farm managers can convey these ideas to potential clients and assist landowners to choose the best farm manager for their farm.

Conveying the Role of Professional Farm Managers to Potential Clientele

By Terry Griffin, Ph.D. and George E. Baird, IV, AFM

Introduction

It is estimated that approximately half of the 9.2 million acres of farmland in the United States (USDA-NASS, 2009) is owned by someone other than the farmer. Many farmland owners choose to hire a professional farm manager to represent their farm business interests. Selecting a professional farm manager is analogous to selecting other service providers, with several individuals or firms to choose from in most geographic areas. The question that remains for professional farm managers is, "How do we convey the benefits of our services to potential clientele?" In general, farm managers are well trained in their discipline and provide similar services at reasonable fees; the difference lies in the specific needs of the landowners and the unique characteristics of the farm. These differences influence which particular farm manager is the best fit based on their training, education, experience, qualifications, and personality.

Assisting Potential Clients in Determining if Professional Management is Needed

Landowners hire professional farm managers for a variety of reasons. The most common reasons include convenience, improving land, local knowledge, peace of mind, and an overall comparative advantage. Many professionals who own farmland find it more profitable to hire a farm manager rather than taking time away from their main job or from their leisure time. Absentee landowners often find it convenient to have a local representative with local knowledge to assist in managing the farm to ensure proper management and prevent unnecessary losses. Some individuals who own farmland as an investment may never physically visit the farm and may not have a background in production agriculture; therefore they must rely upon farm managers to manage their investment. Other reasons for hiring a farm manager include marginal farmland whose owners have difficulty in securing tenants and making land improvements that are advantageous to both the landowner and farmer-tenant.



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Advantages and Disadvantages of Professional Farm Managers to the Farmer-tenant

Professional farm managers continually strive to enhance their services, but not all farmer-tenants understand the benefits of working with a professional farm manager. In some cases, the farmer-tenant may feel a lack of trust when the landowner hires a professional farm manager. In addition, the farmer-tenant may feel as if some control is relinquished if a professional farm manager is involved or that the farm manager is going to reduce the farmer's revenue. Not all farm manager/farmer-tenant relationships are negative. Many farmer-tenants have historically operated in a similar capacity as a professional farm manager with respect to suggesting mutually beneficial improvements to the farm, searching for the best production practices, and sharing in quantity discounts for inputs all without charging a specific fee for their service. So how can the professional farm manager address the concerns of farmer-tenants regarding their intervention?

The simplest response is that the farm manager conveys the benefits that they bring to the farmer-tenant when hired by the landowner. The farm manager should reiterate that although they were hired by and therefore work for the landowner, they strive to simultaneously improve the welfare of both the landowner and farmer-tenant. A leading benefit of professional farm managers to the farmer-tenant are their research-based suggestions regarding farm improvements such as land leveling, drainage, and irrigation equipment that increase net returns to both parties. Professional farm managers should remind farmer-tenants that they have the comparative advantage of being able to effectively communicate which improvements are needed by sharing firsthand knowledge of their case studies with the landowner. These improvements are likely to benefit the farmer-tenant just as much or more than the landowner in both the short- and long-run. Communication based on third-party unbiased experience and case study can be important for landowners to adopt new technology that improves yields and/or reduces production costs, especially in the typical situation of large up-front costs. Farm managers may also have access to quantity purchase discounts for inputs such as seed and fertilizer that carries over to the farmer-tenant's share of production costs. Professional farm managers assist in negotiating share lease agreements to optimize the value of the lease and balance risk to both the landowner and farmer-tenant.

An example of lease arrangement negotiations based on revenue-affecting changes

One criticism of professional farm management is that when the landowner receives increased revenue then the farmer-tenant receives less revenue. This criticism would be true if the total revenue remained constant; while the reality is that the professional farm manager strives to increase total revenue such that the landowner and farmer-tenant both benefit from increased profits.

Rather than viewing crop share lease negotiations as sharing pieces of a finite amount, negotiation should be approached such that the amount to be shared between farmer-tenants and landowners have increased. When the net income for a farm is set and held constant, if either the farmer-tenant or landowner receives a larger share, then the other party receives a lesser share (Figure 1). When the net income of the farm is increased due to farm improvements, production practices, input cost savings or other factors; the farmer-tenant and landowner have a larger total amount to share, providing the opportunity to negotiate splitting shares and potentially both parties enjoying increased returns than with an "unimproved farm." The underlying question dealing with negotiating leasing terms in the presence of farm improvements, is not for splitting the entire sum of revenues but splitting the additional value realized from productive farm improvements.

As inherent farm productivity increases, it is expected that the landowner's share (whether it is crop share, cost share, cash rent, etc.) increases. Inherent farm productivity is affected by several factors such as natural drainage, soil organic matter, and man-made improvements such as land forming and drainage. The relative relationship of proportions of farm revenue split between the farmer-tenant and landowner is depicted in Figure 2. Not all revenue affecting factors originate from the land or the landowner's intervention. Some improvements, especially with respect to management, originate from the farmer-tenant and/or professional farm manager.

Qualified professional farm managers work directly with owners of the property to help clearly define both short- and long-term goals and objectives, thus begin formulating a "management plan" to help meet those goals and objectives. Landowners must realize that the goals and objectives of the farmer-tenant, many times, do not align with the owner's objectives.

Professional Farm Managers are Continually Being Evaluated

Professional farm managers have the opportunity to represent their profession nearly every day. Even when recruiting a potential client, their professionalism is important such that the landowner should feel confident in considering another professional that better matches their specific situation. Professional farm managers can encourage the potential client to visit with other prospective professional farm managers to determine the level of their expertise and/or specialty. Some farm managers may have production experience in livestock while the farm in question may be in traditionally row crop areas without livestock or vice versa. Although the farm manager may be very good within their expertise, the landowner needs to be advised to select a professional that best fits their needs. Peer-referral and reference to the directory of the American Society of Farm Managers and Rural Appraisers (ASFMRA) is a valuable service to potential clients as well as farm managers. Professional farm managers who wish to be competitive in today's market should consider being involved with professional organizations such as the ASFMRA.

In addition to specialties, farm managers should be advised to assess the personality compatibility with the land owner as well as between the professional farm manager and the farmer-tenant if one is already in place before accepting a new client. Professional farm managers, farmer-tenants, and landowners are people with individual characteristics and personalities; and these personalities may not complement one another, leading to potential conflict.

There are no set standards in measuring the effectiveness of a professional farm manager; however, performance measures should be based upon differences before and after the intervention of the farm manager. For instance, measuring cash flow, satisfaction or piece of mind relative to any past problems and the amount of effort the landowner exerted to managing the farm. When interviewing potential clients, professional farm managers should communicate how success will be evaluated. The Code of Ethics adopted by the ASFMRA (ASFMRA, 2010) can be used to convey the professionalism that professional farm managers are bound. A farm manager who is a member of ASFMRA can inform the potential client/landowner regarding the Code of Ethics of the ASFMRA so that they can review the materials in their decision-making process. This may help set the standard of evaluation for the effectiveness of the farm manager.

Communication is a vital part of what a professional farm manager brings to the table. Landowners are often encouraged to speak to a professional farm manager to discern how they can enhance their farm operation. These benefits range from simply helping wade through regulations and legislative changes from the latest farm bills and conservation practices to dramatically improving income for all parties. In many cases, the farm manager can demonstrate the effectiveness of their farm management practices if the landowner spends less time and effort concerned about farm details, and more time constructing future goals.

Although methods for which professional farm managers are evaluated are both quantitative and qualitative, they are appropriate since in many cases the farm manager was hired to allow the landowner to avoid technical and quantitative issues. For example, in the case of a landowner having difficulty finding a farmer-tenant prior to improvements suggested by the professional farm manager, finding a farmer-tenant may become easier once relevant land improvements are made.

A brief list of questions to suggest that the potential client address:

Professional farm managers should operate under the assumption that they are being assessed or evaluated by their clients who are asking the following set of questions.

Does the farm manager:

- Behave positively towards farmers, other professional farm managers, or other potential colleagues?
- Strive for agreements that satisfy the needs of both the landowner and farmer-tenant?
- Maintain familiarity with local traditions and local, state, and federal regulations?
- Remain current with continued education?
- Maintain a current network of state and national colleagues from among the professional farm managers, university Extension, agricultural attorneys, and input suppliers, among others?
- Maintain credentials or accreditation in farm management or real estate?
- Have interests that may conflict with the interests of the landowner or farmer-tenant?
- Make the client's objectives their own rather than imposing their own objectives upon the client and/or the client's associates?
- Strive to determine the wants and needs of the landowner?
- Specialize in issues relevant to my farm?

Separating Fact from Fiction

Practicing farm managers know that a leading opportunity is to separate fact from fiction for their clients and their clients' associates, while being realistic with potential opportunities. The situations currently facing landowners and farmers are similar to those in the past; however the scope, volatility, and velocity are unprecedented. Environmental concerns ranging from local water quality to global climate change impacts decisions made at the farm level. Special interest groups such as environmental and animal rights groups expect their desires to be satiated; and have led to lack of trust among the agricultural community with potential partners. Each change in the federal farm bill legislation has provided challenges and/or opportunities for farmers and landowners; farm managers have the incentive to learn the choices, how to make the most of the situation, and communicate these with their clients. These factors have led to risk and uncertainty that provides an opportunity for professional farm managers. Although the details of each of the aforementioned issues are common knowledge among professional farm managers, most people do not remain current in the facts surrounding the issues.

When separating fact from fiction, professional farm managers provide:

- Global knowledge of business
- Continual scan of environment (locally, globally; internally, externally)
- Different point of view
- Unbiased opinion

- Listen/learn/share
- Benchmark metrics to compare performance against peers
- Knowledge on making the most of local, state, federal policies
- Staying current with new technology

Among the above mentioned challenges relative to fact and fiction that professional farm managers currently face, new challenges and opportunities exist. The next generation of landowners is not expected to be traditional partners of farm-oriented people or absentee landowners, but rather increasing numbers of investors and special interest groups. Professional farm managers should continue to strive to improve their communication skills to address the challenges with new ownership who probably will not be traditional partners.

Summary

Professional farm managers may serve to increase the well being of both landowners and farmer-tenants. We have offered suggestions on how professional farm managers can promote their profession by conveying the benefits of their services to potential clients and their associates. When landowners desire to hire a professional farm manager they should be proactive and hire the best professional that they can for the specific job. To better understand the nature of professional farm managers, the Code of Ethics of the ASFMRA can be reviewed by the landowner and farmer-tenant. For a list of professional farm managers serving your geographic area, go to the ASFMRA website and click on "Find a Professional."

References

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Figure 1. Splitting shares of farm net revenue

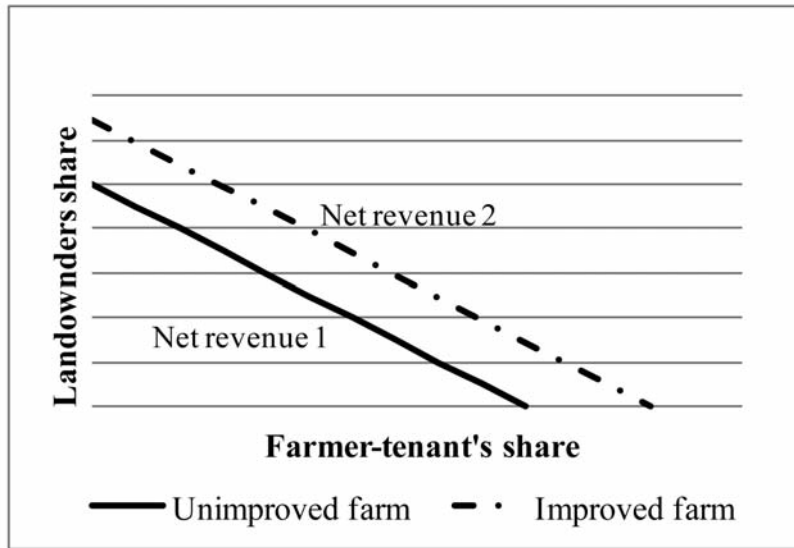


Figure 2. Splitting farm net revenue based upon productivity

