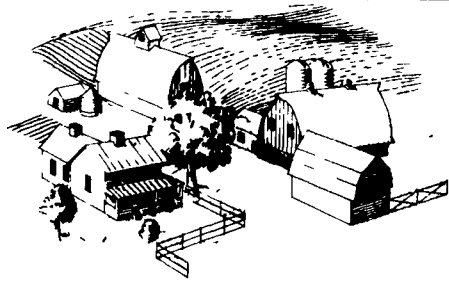


# FARM MANAGEMENT



## CUTTING COSTS

Roland P. Freund  
Farm Management Agent  
Penn State

When the financial situation on the farm gets tight, farm managers have a number of options to consider.

They might try to borrow more money, sell more product, or reduce costs. After a period of drought stress, it would appear that cutting costs could be a very effective way to improve the cash flow. The problem for many managers is to know where to cut to be most effective.

On a farm visit to a very large dairy in another state recently, a group of us was being shown around the new facilities that had cost well in excess of a million dollars. While we were on this inspection tour, the owner was heard to twice tell a hired hand to make sure that when he finished his task he turned the light out in that room. Either this manager already had all the big factors of cost under very tight control so that he could worry about the impact of a light bulb or two, or he was nit-picking in the wrong place.

The same owner could not tell us what the average milk produc-

tion of his 2,000 plus cows was, nor did he have any record of any individual cow's performance. One poor producing cow in the herd was probably losing the business as much money in a month as those few light bulbs would in 10 years!

Managers need to follow a game-plan if they wish to set up an effective cost-cutting program. Some suggestions for this process include:

- Know what's happening. Take time to manage. Keep track of performance of cows, orchard blocks, fields, and enterprises. In the good old days, the farmer could see which mule didn't pull its weight. Today we need records to show us these things. Production and growth records, soil testing all fields systematically, and forage testing all cuts of feed are basic necessities for cost control. In addition to cash expenses, feed use by different animal groups must be traced if we are going to determine that group's contribution to farm profits.

Once we have this kind of information, we can work out where we are dumping money down "rat holes." Get the big picture as simply and accurately as possible. It should not be necessary to track every last gallon of gas, hour of

labor, or pint of spray to identify major "rat holes."

- Start with the big holes. Are there rented farms that produce less value than they cost? Is there an enterprise that should be eliminated? Which cow(s) are worth more as hamburger than milk income above feed costs? Identify them and get rid of them to plug the holes.

In livestock operations, feed, labor (including family living allowances), and interest are often the major cost items. If we examine each of these carefully, we can probably see if and why they are excessive, and then devise ways to bring them into line.

For example, poor forage quality means excessive protein and grain purchases. Develop a crop management plan to get the quality, or take half of the grain purchase money and buy quality forage.

- Examine labor efficiency. Sometimes antiquated facilities cost us more in lost production and labor than the bank payments to finance a new unit. If the operation cannot justify basic efficient facilities, then it might be time to consider shutting down the enterprise.

- Attention to detail. Cost-cutting management involves almost every activity on the farm. Spreading manure on low-fertility fields and then reducing fertilizer purchases can save thousands. Scouting fields and only applying pesticides where problems warrant it is basic. Timing is everything — particularly when it comes to sow management for more pigs weaned or producing, harvesting, or grazing forages.

- Reduce fixed costs. Many operations are crippled by their level of lease and debt repayment obligations. Some relief might be

gained by refinancing to lock in today's low interest rates. But when debts have to be refinanced again and again, to pay for a drought or the equivalent of a dead horse, then no progress is made in paying principle.

Under such conditions it becomes necessary to sell off capital assets such as land and machinery to reduce the fixed costs to a level which the operation can carry.

- Use available tools. In this process, it is necessary to a lot of

business analysis. Penn State Extension has recently added Finanx to its arsenal of Finpack programs. This enables us to do an enterprise analysis anywhere that there are some basic financial and production records. It is an excellent tool to identify the big "rat holes."

Contact your county office and ask your farm management agent to run your numbers through the Finanx program. This should give you a good start with your cost cutting efforts.

## Md. Certifies First Organic Retailer

ANNAPOLIS, Md. — Maryland Secretary of Agriculture Wayne A. Cawley, Jr. announced that the state has certified its first organic retailer — B. Gordon's Market at 11550 Rockville Pike, Rockville, Md.

Located just north of White Flint Mall at the intersection of Nicholson Lane and Rockville Pike, B. Gordon's is a full-service grocery store.

Maryland regulations require that Maryland Certified Organic produce be sold only by the grower or a certified retailer. This is to ensure that the produce is handled properly from the field to the consumer's hands. The retailer, like the farmer, has made a commitment to insure that non-organic products are kept separate.

Current Maryland regulations deal only with produce, although in future years, expansion into other categories is projected.

B. Gordon's carries an exten-

sive selection of fresh produce overwhelmingly organic, with a few non-organic selections. They also carry dry goods, fresh meat, and fish.

"We hope consumers will become more familiar to our attractive 'MDA Certified Organic' logo as more Maryland produce becomes available. We appreciate retailers' efforts who are helping to get this new program up and going," Cawley said.

Retailers interested in the Maryland program may contact Suzie Harrison at (301) 841-5770.



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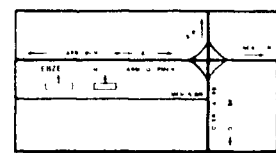


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