Practices that enhance farm finances
Six practices that successful producers have in common

Farming is never a picnic, but those producers in Tennessee who weathered the financially challenging years 1998 – 2001, and who continue to farm in 2014, have seen many economic shifts that those who started farming in more recent years have not yet experienced. Chuck Danehower, a farm management specialist with University of Tennessee Extension, says younger farmers who hope to weather economic downturns would do well to learn from their elders.

“Since commodity price levels for the next few years will most likely not be as high as the last three to four years, it might help some producers to adopt traits that have helped others survive and thrive,” Danehower said.

Danehower says financially successful farmers share at least six similar characteristics:

1. Successful producers develop a farm financial plan that includes estimated crop incomes and expenses and acreage plans. It also analyzes any potential changes in their operation. “Generally, depending on the operation, the plan will explore alternative acreages and price scenarios,” he said. The plans include building up capital reserves whenever possible. A rule of thumb is to have 20 percent to 25 percent of revenues as reserves with a goal of 33 percent. “A strong capital reserve position can go a long way toward reducing financial stress in an operation,” he said.

2. Successful producers stick to the basics. “Tried, true and proven fertility programs along with sound varieties have allowed producers to make it through challenging years and they have helped enhance profits during good times,” Danehower said. “One of the most basic operations in a cropping program is soil testing. By using and following soil tests, the optimum amount of fertility can be employed for maximum economic yields.”

3. Successful producers select top varieties. “They choose carefully based on the correct environment, including weed, insect, and disease problems. They also monitor fields on a regular basis,” Danehower said. Not only do producers have to apply the right control method, but it has to be done at the right time to be effective. “Keeping up to date production and financial records is a must in today’s operations. How can you know where you are going if you don’t know where you have been?” he said.

4. Successful producers keep records. “Records can help a producer fine tune the operation. A thorough analysis of records can distinguish between enterprises or profit centers that are making money and those that are not. Successful farmers are also constantly evaluating technology for what will work on their farm. It could be new genetics in varieties, precision agriculture applications or changes in equipment such as automatic section control on planters.

5. Successful producers do not worry about who owns an income-producing asset but whether it can increase their profits by using it. “In Tennessee center pivots have been installed in the last few years on leased ground where the producers may own only a portion of the system. It can make economic sense for both the landowner and producer to own the system, as long as both see an increase in income,” Danehower said.

6. Successful producers change or update their equipment only when it makes economic sense, not necessarily for income tax benefits. “The tax benefit derived from the Section 179 Deduction on purchased equipment may reduce taxes in that one year, but if it is purchased with borrowed money, the payments can continue for several years,” explained Danehower. “This can put a crimp in a cash flow plan.”

Danehower reminds all producers that decisions that are made and habits that are formed during profitable times have more potential to help you through challenging years that are sure to come.
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