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December 23, 2008

UNL Ag Economist: Farmers Need to Plan Well for 2009

LINCOLN, Neb. & Good planning is always key to success for agricultural producers -- but perhaps never more so than in today's economy, said a University of Nebraska-Lincoln agricultural economist.

"Planning what to grow in 2009 has many complications this year," said Doug Jose, UNL farm management specialist. "Among the possible unknowns at the farm level are market prices for commodities, the cost and availability of inputs and the cost and availability of operating credit.

"I say 'possible' because through contractual arrangements and forward pricing decisions, farmers already may have locked in many of these prices for the next production cycle," he added.

Like everyone, farmers are keeping an eye on the overall economy, Jose said.

"Agriculture needs improvement in our general economy and improved consumer confidence to prosper," Jose wrote in the Dec. 17 issue of *Cornhusker Economics*. "Yes, people will buy food, but they will spend more on food through buying more expensive items, more protein and more prepared meals, if they have more money in their pockets."

Jose offers these planning tips for 2009:

Establish your business model. Despite the unknowns, producers need to "start with describing the operating environment you think is going to exist for the next year," Jose said. "This gives you a base to respond to if the situation does change -- as opposed to reacting on a daily basis without any structure in your decision making process." Farmers should figure out what they plan to produce, the inputs they'll need, the forces that will impact production and major risks to their operations.

Define a marketing plan. Price patterns and relationships have changed, but it is still important to establish a marketing plan. Despite market volatility, seasonal price patterns are still relevant.

Make farm program decisions. Details of the new farm program, and specifically the Average Crop Revenue Election program are expected early in 2009.

Coordinate decisions. Once producers decide what they plan to grow, the next set of decisions will be the inputs needed -- seed, fertilizer, fuel, chemicals, Jose said. "But this should be coordinated with two other sets of decisions, namely the crop insurance decision and a marketing plan. All three groups of decisions should be tied together," he said.

Evaluate the costs and benefits of seed alternatives. An increasing number of seed alternatives are available. Traits incorporated into these varieties have increased yields and reduced chemical use.

Assess contractual arrangements. Contractual arrangements range from land leasing arrangements to

prepayment for inputs to forward pricing of output. Farmers should be particularly cautious about the financial health of their purchasers. "Non-fulfillment of marketing contracts has not happened very often, but it did happen this year," Jose said.

"The same applies to prepaying for inputs. Producers become unsecured creditors with prepayment arrangements," he added. "There were incidents this year of firms becoming insolvent and not supplying the inputs. Deal with suppliers who have been a part of your local economy and have a history of providing dependable service to their customers."

Calculate your working capital position. Working capital is the difference between current assets, cash or things that can be turned into cash within the year, and current liabilities, or payments due within the year. Jose said some experts recommend maintaining a working capital balance of at least 20 percent of either production costs or revenue as a "buffer against the volatility we are experiencing."

Analyze a number of "what if" situations. Budgets of 2009 production costs are changing almost daily, Jose said. A number of fact sheets on addressing high input costs are available on the [Crop Watch](http://cropwatch.unl.edu) (<http://cropwatch.unl.edu>) Web site. A set of crop budgets updated in October also are available there. Since then diesel and fertilizer costs have declined. These budgets can be used as a guideline to develop your own breakeven spreadsheets. Run a number of "what if" scenarios to test the outcomes if prices of both inputs and outputs change.

Define tasks, responsibilities and timelines for decisions. Once the budgeting and planning is completed, make sure the necessary tasks are defined, and that the responsibilities for each task are assigned to a specific person in the business. And finally, establish a timeline for the completion of the tasks and when additional decisions will be made. This system provides the checks to identify a problem if it occurs and the controls to correct it when it does occur.

This and other issues of [Cornhusker Economics](http://www.agecon.unl.edu/Cornhuskereconomics.html) (<http://www.agecon.unl.edu/Cornhuskereconomics.html>), a publication of UNL's Department of Agricultural Economics, are available online.

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