



OPERATING A PROFITABLE SMALL FARM

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FACT SHEET 1

Ag 101: Introduction to Small Scale Farming

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I. Definition of a Farm

What is a farm? This question is constantly being asked about small farms. This is mostly an issue concerning state/local criteria defining a farm for taxing purposes. For this reason landowners with farm tax assessments should check with their tax assessment office for the current definition of a farm.

The U.S. Census of Agriculture has provided an assortment of definitions of a farm for over 100 years. Listed below is a history of how the U.S. Census of Agriculture has defined what is a farm.

- 1850-1869..... \$100 in ag product sales
- 1870-1899..... \$500 in sales, or 3 acres
- 1900-1909..... one full-time person
- 1910-1924..... \$250 in sales, or 3 acres,
or one full-time person
- 1925-1949..... \$250 in sales, or 3 acres
- 1950-1958..... \$150 & 3 acres, or \$250 in sales

- 1959-1974..... \$50 & 10 acres, or \$250 in sales
 - 1975-present.. \$1,000 in sales
- The U.S. Department of Agriculture has a definition of what constitutes a small farm. They define a small farm as a farm with a gross farm income of less than \$50,000 per year.

II. Small Farm Population

Many people would be surprised to learn that most farms in the United States are small farms. The traditional family farm continues to disappear and is being replaced by housing developments, light industry, and small farms (farmettes). The USDA estimates that about 71 percent of the farms in the U.S. are classified as small farms. This trend holds true for the State of Maryland and Frederick County. Table 1 below lists U.S. Census of Agriculture statistics that show the growth of small farms in the state and Frederick County during the decade of the 80's. Since most small farm operators

Table 1. Percentage of Small Farms in the State of Maryland and Frederick County

	<u>Frederick</u> 1982	<u>Frederick</u> 1992	<u>State</u> 1982	<u>State</u> 1992
Total Number of Farms	1,463	1,346	16,183	13,037
Farms < 179 acres	66%	71%	75%	75%
Cash farms receipts < \$50K	67%	71%	65%	72%
Principle occupation not farming	41%	56%	54%	54%
Operators who work off farm	48%	50%	54%	58%

Source: 1982 and 1992 U.S. Census of Agriculture statistics

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have other careers, the table shows the increase over this period, in the percent of farm operators whose principle occupation is not farming and therefore spend a significant part of their time working off of the farm.

III. Technical Help for Small Farms

Most small farm operators come from non-farm backgrounds. By not having any previous farm experience, small farm operators are in critical need of basic/fundamental information on farming and technical assistance to help get the farm business operation started in the right direction. There are several technical and educational resources available to assist small farms, as well as ample places to look for information. Below is a list of government supported agencies that provide technical and educational support to the farm community.

- Cooperative Extension Service (CES)
- Natural Resource Conservation Service (NRCS)
- Soil Conservation District (SCD)
- Farm Service Agency (FSA)
- MD Department of Natural Resources (DNR)
- MD Department of Agriculture (MDA)
- MD Department of the Environment (MDE)
- Frederick County Weed Control

In addition to the above mentioned agencies, some other sources of information would include agricultural newspapers and magazines, books on agriculture, the internet, and other producers. Joining an agricultural association or organization is a good way to meet other producers and share knowledge and experience. Many associations actually include educational programs as part of their association meetings. These can be extremely valuable opportunities to learn, since the programs often provide practical solutions to problems and are taught by people who have hands-on experience in farming.

IV. What Do I Produce?

What should I produce on my farm? This is a question that is often asked of Extension agents in counties with growing small farm populations. There is no simple answer to this question. While some small farm operators are simply looking for a way to maintain the farm tax assessment on their property, most are seeking a way to produce a modest profit on

their farm. Due to the limitations of small farms, operators need to look for enterprises that involve high value crops or animals. They need to produce commodities that the large farmers are not producing, since small farms are not going to be able to compete with them.

Below is a list of questions small farm operators need to ask themselves as they begin their search for farm enterprises. Finding the answers to these questions will help to narrow down the choices to a few more realistic options.

- What ag interests do I have?
- What resources are available?
- Can I afford to produce what I want?
- Will the farm support what I select?
- How will I establish, manage, harvest, store, or feed my selection?
- Is there a market for my product?
- Is there a knowledge or support base?
- Will there ultimately be a profit?

V. Small Farm Problems

Small farm operators face a number of problems as they try to develop and operate a profitable farm business. While small farms in many other parts of the country are classified as limited resource farms, meaning that the operators have little to no money, this is not the norm in Frederick and the surrounding counties. Most small operators in this area have moved onto their farm from an urban area, farm on a part-time basis, and work at an off-farm job that provides the primary source of income.

While income from the farm operation is not critical to most small farm operations in this area, most small farm operators do not want to lose money. Small farms can be profitable, but they will need to overcome some inherent problems before this can be achieved. Some of these problems are listed below.

- Limited purchasing power (small quantities and no discount)
- Limited availability to markets (low volume)
- Limited availability of custom field work (small fields)
- Limited farm knowledge and experience (new to agriculture)
- Limited resources (land, equipment, etc.)

VI. The Big Red Barn Syndrome

Many small farms fail due to high overhead. High overhead items such as new tractors, board fencing, fancy ornamentation, and the big red barn make it very difficult for a limited resource operation to overcome such expenses. Often, small farm operators confuse the family/home farm with the farm business. Items purchased for the esthetic appearance on the farm are usually not practical and can become a financial burden. Remember, agriculture is a business. Purchases for the farm should fit into the business plan for the farm. If the farm operation cannot support it, do not buy it. Ask this question: Can the farm afford to buy it in the context of the business?

Small farm operators need to be business smart and make sound business decisions for the farm operation. Considering the limitations under which small farms operate, small farm operators need to be resourceful. Listed below are a few hints on how to be resourceful.

- Be innovative and use the resources around you
- Use less expensive buildings, covers, fencing where possible
- Buy used equipment
- Buy equipment that has some flexibility for use in more than one task
- Do not buy more than what is needed
- It may be cheaper to have someone do the work for you
- It may be cheaper to buy a product than to produce it (hay, grain)

The thought process applied to the business of crop and livestock production should be the same as with any other business. You are in the business to make money. If you cannot cover your variable costs, do not grow or raise it.

VII. The Name of the Game is High Value Production Per Acre

In order to overcome some of the limitations on a small farm operation, operators need to take a long look at what they decide to produce on the farm. As was discussed earlier, there is a list of questions that need to be asked before finally deciding on what to produce. However, the ultimate decision on a farm enterprise should rest on whether or not it is going to be profitable within the business plan of the farm.

In most cases, land imposes the biggest limitation on small farms. Enterprises need to generate high value per acre to be profitable, since the average cost of production per acre is going to be higher on small farms and income is limited by available productive land and other limited resources.

Small farm operators need to look at exploiting already available markets, or perhaps even develop new niche markets. Niche markets provide products that are not commonly available from other producers and have the potential to be very profitable. The secret to success in this marketing venture is to be one of the first to exploit the market. Once everyone else starts selling the product, it is no longer a niche market and the price drops. The following is a list of some factors on developing a niche market.

- Identify markets
- Determine special needs
- Position yourself to serve those markets
- Find out what the large suppliers cannot supply. What is too small for them?
- Look for ways to differentiate your product not only by what you grow, but how you grow it, what you do with it, how you package it, or market it.

There are several nontraditional farm enterprises available to small farm operators that have the potential to produce a high value crop. Do your homework and explore all your options. Be sure that whatever enterprise you select has a market and has value enough to make a profit for the farm operation.

VIII. Benefits of Membership in a Cooperative

Some of the limitations facing small farm operators can be overcome by a cooperative effort of a group of small farm producers through a sharing of goals, activities, and objectives of members. Cooperatives have long been important to agricultural producers. Much of the success of today's agriculture can be traced back to the development of marketing cooperatives. Small farm operators can take advantage of the same opportunities provided to cooperative members. The list below outlines some of the benefits to cooperative membership.

- Group purchasing lowers costs
- Group marketing brings higher prices and more opportunity
- Market strategies can establish reliable markets
- Diversity of goods is a strength of small farms in a cooperative
- Service contracts and barter agreements can establish reliable sources of farm help
- Niche markets can be quickly developed
- Newly identified markets can be explored
- Wider base of markets untapped by large producers can be reached

- Networking of membership, sharing of experience
- Educational programs can be easily developed and implemented
- Focused action group on behalf of the membership

As agriculture evolves and fights to survive in this rapidly urbanizing region, the small farm is going to have to carry more of the burden of agricultural production. Small farms can meet this challenge by planning ahead and making good business as well as agricultural decisions. However only so many of the limitations of small scale farming can be overcome. A cooperative effort with other producers can help to minimize the impact of the size limitation.