

Chapter 1
Introduction

*An example
of a typical
situation
faced by an
agricultural
extension
worker*

A small-scale farmer runs a three hectare farm. She grows maize, a mix of beans and pumpkins, has two dairy cows and keeps some chickens around her home. Her farm has sustained her and her family comfortably for a number of years. While producing for home consumption, she has always produced a surplus which she has sold for cash on the local market. Now that her children are older, she feels the need for more cash. She knows that it should be possible to make more money from her farm.

She recently heard on the radio that there had been an increase in the demand for vegetables and high prices could be obtained. The announcer said that farmers who know how to produce tomatoes may be able to make good profits. She wants to gain more out of her farm. Beans have not been very successful and she is considering introducing tomatoes as an alternative. She wonders whether this change will increase her income. To produce for the market will cost her money, which she will have to pay out before she sells her produce. These are some of the factors that she will have to take into account before making a final decision.

If this farmer asked you for advice about markets, demand, profits and return on investment in tomato production, would you be able to answer her questions? Would you be able to give her good advice on the management of her farm? If not, then the contents of this guide will be of particular use to you. It begins with a review of farm profits, markets, farmer goals and economics.

MAIN POINTS IN CHAPTER 1

Market-oriented farming: farming for profit

Farming for profit requires that farmers grow crops or raise livestock that can be sold on the market.

Farmers should understand markets ... what leads to profits and what leads to losses.

*Farm
production
must match
market
requirements*

Goals for farm and family

Good farm management requires clear goals. Goals give a focus for making decisions. Some important goals are food security, profit maximization, risk reduction and providing education for children. These and other goals influence planning and decision-making on the farm.

*Goals
give focus
to making
decisions
on the farm*

Economics in farm management

Economics as it applies to farming is about the choices that are made in order to obtain the most from available, often limited, farm resources.

Economics provides ways to analyse and compare the profitability of crops and livestock under different circumstances.

*Farm
resources
should be
used in the
most effecient
manner*



MARKET-ORIENTED FARMING: FARMING FOR PROFIT

More and more farming families are finding that they increasingly need to produce farm products that can be sold for cash. Farming for profit requires that products produced on the farm are sold. This is more complicated than simply farming for food. Farming for profit requires that the farmers grow crops or raise livestock that they can sell on the market. It also requires that farmers understand markets and profits. Market-oriented farmers need to understand the kinds of products that consumers want, the quality of the product they must produce, the quantity demanded and the price that consumers are willing to pay.

*Farmers need to
acquire new skills
and techniques
in order to
farm for profit*

We now have a global economy where farm products may be sold anywhere in the world. These changes create opportunities for farmers to earn more money and to make more profits. To take advantage of these opportunities, farmers will need to manage their farms in a market-oriented way. Farming for the market requires that farmers become better decision-makers. They must also be able to compete with other farmers. The farmer must develop greater skills in buying and selling, and in farm business management.



GOALS FOR FARM AND FAMILY

Goals set the framework and give a focus for making decisions. Farmers and their families have goals. In many parts of the world the family household and the family farm cannot be separated. Therefore, the goals of the household and the goals of the farm often interlink.

***Good farm
management
requires
clear goals***

Farmers run their farm business. They are the decision-makers. A farmer can be a husband, a wife, a son or a daughter; whoever takes the many day-to-day decisions needed in farming. To ensure better farm management decisions, farmers must have control of the resources needed to produce a crop or livestock product. If they are farming for the market, they will also need to have a good understanding of that market.

Some common goals of farm families

Food security

A primary goal for every farm family

Profit maximization

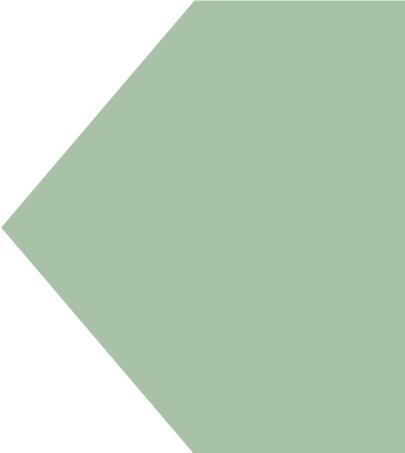
*Farm families need more than just food
and any cash needed
must often come from the farm*

Risk reduction

Risks can create great losses in income

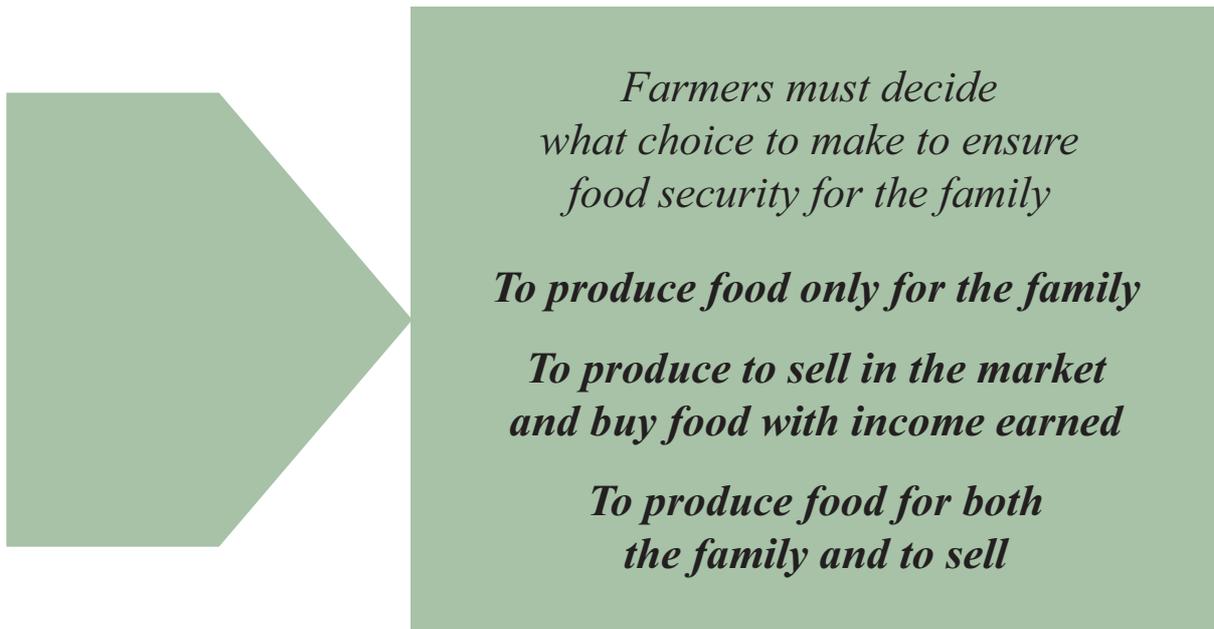
Social goals

*The quality of family life may have a
higher priority than just making money.*



Food security

Every family needs to ensure that it has sufficient, nutritionally adequate and safe food for an active and healthy life throughout the year. This is one of the primary goals of every farming family, especially those whose only source of income is the family farm.



***For most farmers
the main source
of cash is usually
the farm***

Maximize profits

Farm families need more than just food. They also need clothes, education for the children, household items and other goods, all of which require cash. Their main source of cash is usually the farm; therefore they have to make profits from their farms.

To make profits a farmer buys inputs, uses them on the land to produce goods and then sells the goods in the market. When the income from the sale of products is *greater* than the cost of producing them the farmer makes a *profit*. When farming for profit, farmers should set goals to gain the most out of their farm – to maximize profits.

Choosing between farming for food and farming for profit is a very serious decision. *How much of the farm should be used for generating cash? Should the whole farm be committed to producing for the market or should some part of it be set aside to provide food for*

© FAO/21560/G. Bizzarri



Women collecting food for the family – Ecuador

Food for the family comes first ...

© FAO/22632/J. Spatull



Selling fruit for family income – Georgia

... though to live well the farm family also needs to make money ...

© FAO/21667/J. Spatull



Improved watering using a pump – Zimbabwe

... which may require farmers to change their farming practices.

the family? Farming for profit can be very risky because there are many other farmers producing for the market. This creates competition and requires that the farmer be very skilful, both as a farmer and as a manager.

Risk reduction

While profit is an important goal, many farmers are more concerned about reducing risks. Risks come in many different ways. Rainfall may be scarce or fail, prices for goods may fall, and pests and diseases may affect crop yields. These are only some of the many risks that farmers face.

While profit is an important goal, reducing risk is of major concern

The risks of farming can create large differences in the income that the farm family earns from year to year. An important goal among smallholder farmers, particularly poorer farmers, is just to survive. A wish for security is a normal motive for all people. Some farmers see this as a more important goal than making profits. But the goals of trying to reduce risk and to increase profit do not have to conflict. Those farmers who generate more profit are often better able to survive the bad years in farming when yields and prices are low.

Social goals

Many farmers are more concerned about their quality of life than they are about making more money. They may be more interested in making sure that farming gives them the time available for family, community or leisure. Some farmers may not be interested in a particular farm enterprise even though they could earn high profits from it. Farmers often have preferences for different enterprises. Some may not want to raise pigs or poultry; others may not want to keep cattle even if cattle are highly profitable. This is often related to family traditions, culture, religion and even social standing in the community.

For some farmers profit is not the main goal

Before you can effectively advise farmers about farm management decisions, you will need to understand the goals and motives of the farmer and the farm family. All decisions that farmers make have to refer to their goals.

Some of the questions that extension workers may wish to ask farmers are therefore:

- *Do you want to produce all your food requirements?*
- *How important is it for you to make profits in order to be able to buy things?*
- *To what extent are you willing to take risks?*
- *Do you wish more time for family, community or leisure?*
- *Are there any crops you prefer to grow or animals you prefer to rear?*
- *Are there any crops or animals that you would not want to grow or rear?*

Farmers' preferences and goals affect the decisions they make about their enterprises: *What to grow? How to grow? How much to grow? For whom to grow?* These goals guide their choices between different courses of action.

Goals are about *satisfaction*. However, when a farmer earns profits, this may not, by itself, satisfy family needs. The profits earned will only provide satisfaction if the money is used responsibly or in a way that matches the farmer's goals. Very few households would be satisfied if money earned was not used, that is to say just saved and never spent. This idea of satisfaction usually occurs when goods and services are purchased out of the profits made. We can conclude that the more general goal of farmers might be to maximize satisfaction. But that satisfaction must benefit the entire farm family. A farmer who maximizes profit and then spends it all on beer will not be maximizing satisfaction for the family.

You need to understand the broad range of goals that farmers may have. This could provide you with a better understanding of the reasons behind many of the decisions that farmers make. For example, a decision taken by a farmer to select a farm enterprise that maximizes profit could result in wide variations in yields, and thus income, from year to year.

Achievement of farm family goals such as food, profit or social status brings satisfaction

*When profits
are made ...*

*... goods and
services can
be bought ...*

*... and farm
households
benefit.*



Enough maize to sell – Honduras

© FAO/10173/I.Velez



Goods for farm household use – Brazil

© FAO/CFU/000649/R.Faidutti



A family working together – Congo

© FAO/23937/M.Bleich

Unless the farmer has money in the bank to cover these risks, the goal of profit maximizing may not be as sensible as selecting an enterprise that produces a lower but more stable profit. These considerations limit the extent to which profit is the main driving force. The use of profit in farming, however, does have a common purpose: it allows all of the farm family goals to be expressed in money values. In this way better decisions can be taken.

Various cases to consider

A farmer is continuing with an enterprise that is losing money regularly.

The farmer needs to be aware that this is happening.

A farmer chooses a less profitable enterprise over one that is more profitable.

The difference in profit would indicate the loss to the farmer because of the choice.

A farmer chooses a social goal over maximizing profit.

Any loss of profit can be calculated and expressed in money terms.

In each of the cases above, knowing the cost of choices made provides the farmer with information to assist in making a more balanced judgement. But there is a bottom line. Market-oriented farming does require a business approach and profit is important to bring about a good living for the farm family. Profit generates the capital needed to reinvest in the farm: to buy machinery and implements, to carry out soil conservation measures and to introduce irrigation. It also provides the purchasing power for medical and health services, education, recreation and food.

ECONOMICS IN FARM MANAGEMENT

Economics is about wealth, that is the use of often scarce resources to produce and exchange goods in order to create wealth. Farmers have limited amounts of land, labour, money (or credit) for inputs and other resources to use on their farms. *Farm management* is about making decisions regarding use of the resources available. Wealth is created by putting resources together. How farmers use their resources affects how much wealth they can create.

How efficiently farmers use their resources affects the level of wealth that can be attained

An example of
assessing resource utilization

A farm family have chickens. *Should they eat the chickens or should they look after them and have a regular supply of eggs? If they decide to keep the chickens for their eggs, should they eat the eggs or should they sell the eggs? Which is the best use of their resources?*

Learning about some of the key economic concepts does help farmers make these decisions. These principles lie at the heart of farm management and knowledge of them is important for good decision-making. Learning about some of the key concepts of economics helps farmers to have greater control over the processes that influence their wealth. It can help farmers understand which choices or decisions will lead them to more wealth.