



Characteristics of Profitable Farms: Is Your Farm One of Them?

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Questions about the Most Profitable Farms

- **Do the most profitable farms have the higher yields? _____**
- **Do the most profitable farms use all the latest technology? _____**
- **Do the most profitable farms get the highest prices for commodities? _____**

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- **Do the most profitable farms purchase inputs better than less profitable farms? _____**
- **Are the most profitable farms larger? _____**
- **Is there a cost advantage to being larger? _____**

Outline

- 1. Farms divided into profit groups**
- 2. Survey of FBFM field staff on management factors**
- 3. Cost advantages of larger farms**
- 4. Budgeting for high and low profit farms**
- 5. Identifying whether a farm is one of the more profitable farms**

Management Returns

- **FBFM farms (Economic Management Analysis Report)**
- **Data from 1998 through 2002**
- **Per acre revenue and costs**
- **Costs includes opportunity costs (unpaid labor, interest on investment)**
- **Each year divide farms into 3 groups based on management returns (High 1/3, Mid 1/3, Low 1/3)**

Movement Between Groups

Group in 2001	----- Group in 2002 -----		
	Low 1/3	Mid 1/3	High 1/3
Low 1/3	55%	28%	17%
Mid 1/3	29%	43%	28%
High 1/3	16%	30%	54%

Divide farms into groups based on number of years in high 1/3 group between 1998 and 2002:

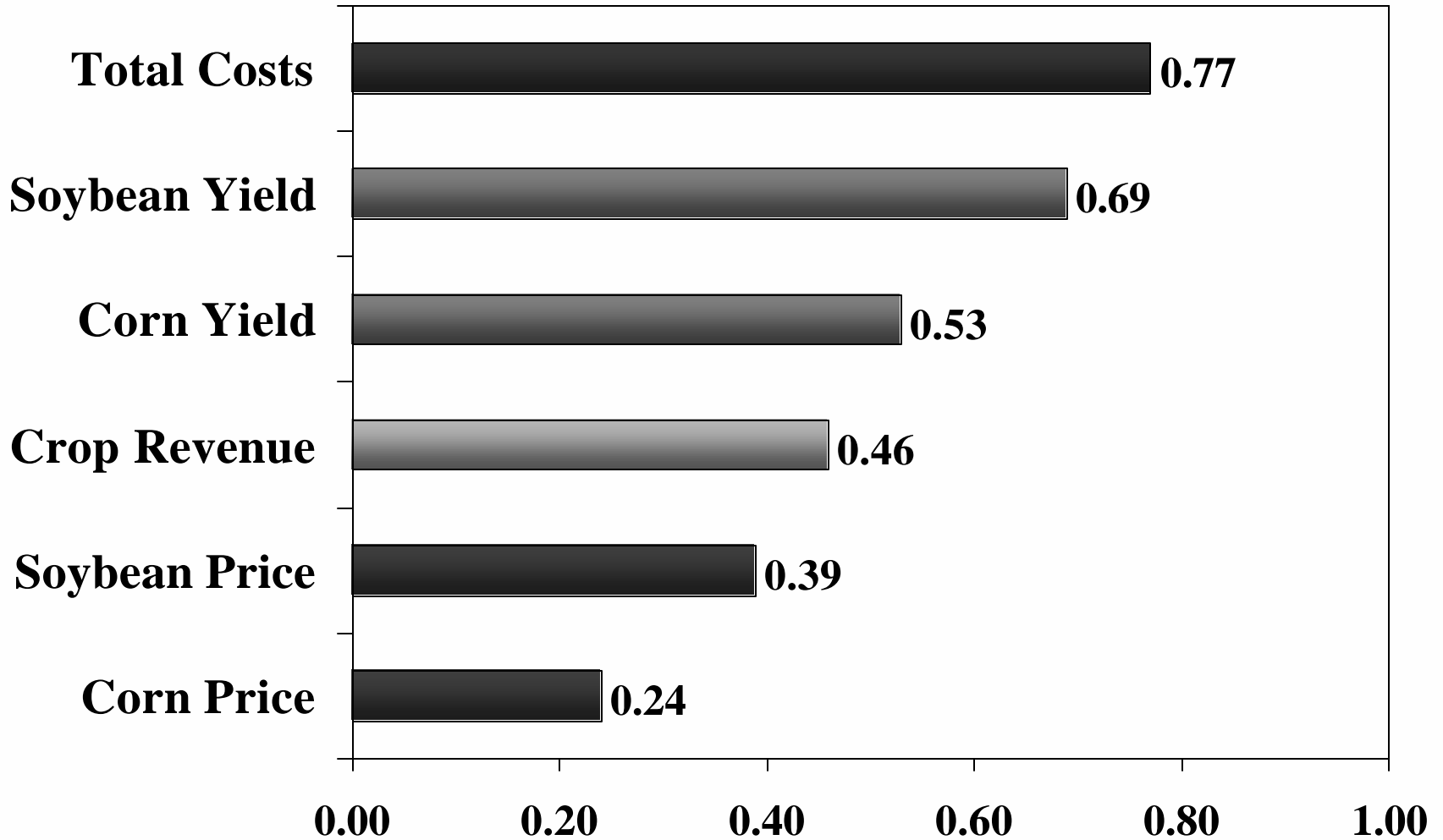
- **Five – all five years**
- **Three and four**
- **One and two**
- **Never**

**See “Returns and Costs for Illinois FBFM
Farms by Profit Group”**

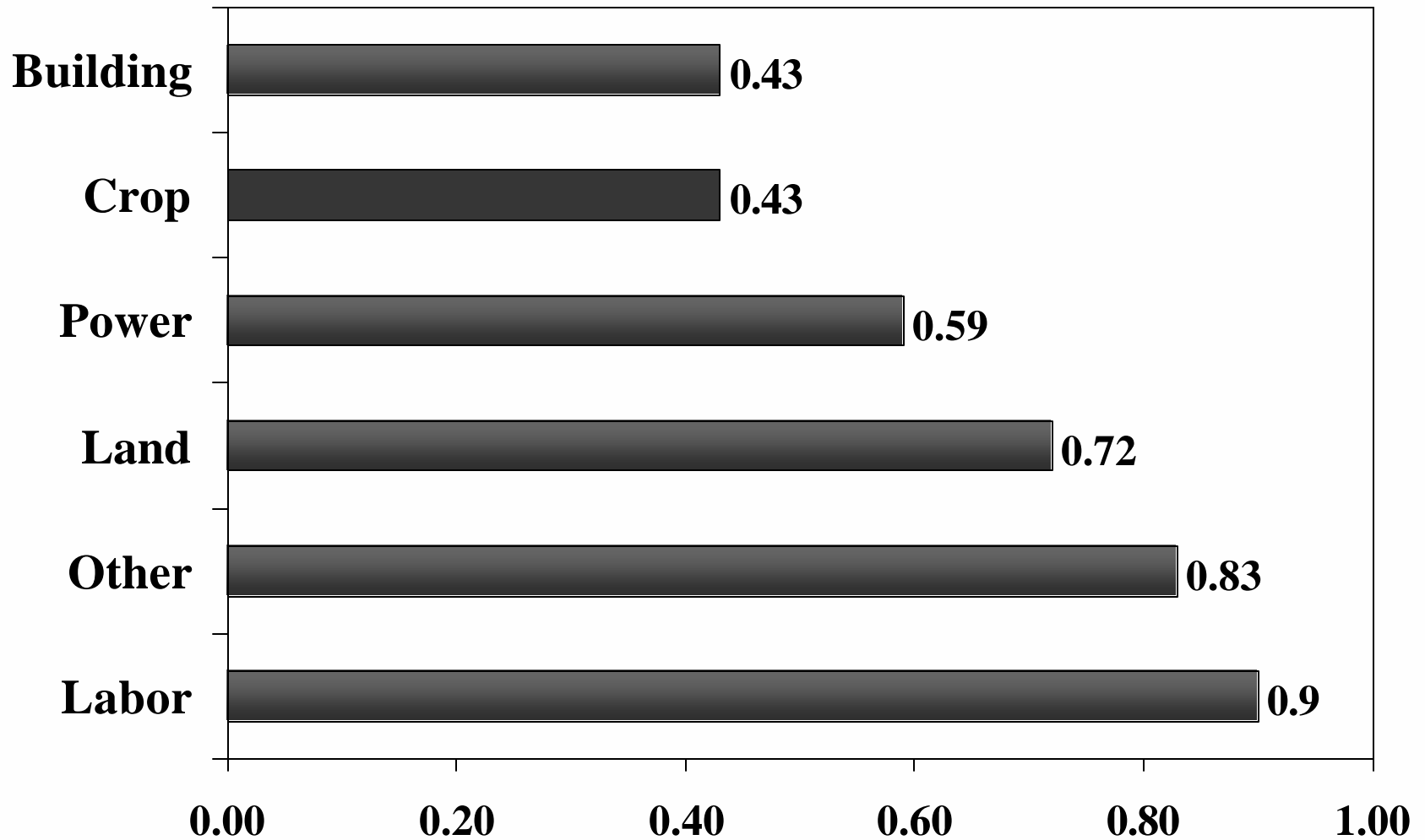
Persistence Scores

- **Measures how much rank across farms change between years**
- **1 means all farms have the same rank from one year to the next, 0 means that no relationship between one year to the next**
- **Persistence proxies management control**

Persistence Across Years



Persistence Across Years



Summary of Profit Comparison

- **Differences in:**
 - **Land tenure** (*High profit farms have less owned land, more share rent*)
 - **Size** (*High profit farms have larger farms*)
 - **Yields** (*High profit farms have slightly higher yields*)
 - **Costs** (*High profit farms have lower costs*)

Summary of Profit Comparison

- **Ranking of cost categories:**
 - **Land**
 - **Labor**
 - **Power**
 - **Other**
 - **Crop**
 - **Building**

Summary of Profit Comparison

- **No difference in:**
 - **Prices received**

Equipment of the most profitable farm

1,500 acres

2,500 acres

Combine (size)

No of tractors

Planter?

Drill?

Trucks?

Survey of FBFM Field Staff

- **Asked FBFM field staff to evaluate cooperators abilities and use of technology in certain areas**
- **Did not tell field staff profit classes of farmers**

- **See “Summary of FBFM Field Staff Responses to Management Survey”**

Summary of Survey

- **Not much difference across farms**
 - **Financial planning and personal mgt are higher for more profitable farms**
- **No evidence that more profitable farms use different technology than less profitable farms.**

- **Will larger farms be building on-farm storage? _____**

- **Will larger farms store a large percent of grain after harvest? _____**

Size and Costs

- **Do larger farms have per acre cost advantages over smaller farms?**

- **See “Size Economies on Illinois Grain Farms”**

Summary of Size Economies

- **Once reach 1,200 acres, very little change in costs across larger farm sizes.**
- **No evidence that larger farms can “purchase” at lower costs than smaller farms.**
- **Logic: Combine example (One combine can only do so much)**

Budgeting for high profit and average profit farms

- **Develop corn and soybean budgets for low 1/3 cost farms and average farms**

- **See “Breakdown of Economic Costs by Cost Category**
- **See “2004 Budgets”**

Crop Budgeting Tool

- **Examine the impacts of differences in costs on returns using *FAST* Crop Budgeting tool.**

Is my farm a highly profitable farm?

Outline:

- **Discuss prototype farm**
- **FBFM resources**
- ***FAST* tools**

Prototype of Low Cost 2,500 Acre Grain Farm

Explanations

- **Size is not that important, only reason to pick this size is to fully utilize combine**
- **Assumes no custom work or other enterprises (not necessarily a recommendation)**

Prototype of Low Cost 2,500 Acre Grain Farm

- **One full-time person with part-time planting and harvest labor**
- **No on-farm grain storage**
- **Sell all grain at harvest, unless can lock in profits using hedging (If want to speculate, use futures)**

Prototype of Low Cost 2,500 Acre Grain Farm

- **Equipment (all relatively new)**
 - **One combine**
 - **Two tractors**
 - **Grain cart**
 - **One planter (no skip row)**
 - **Field cultivator, Chisel plow, nitrogen applicator**
 - **Sprayer (self propelled)**
 - **S10 Pickup**
 - **Used semis**

Prototype of Low Cost 2,500 Acre Grain Farm

- **Share-rent farmland (or not aggressive cash rent)**
- **Cropping program (Nothing from a cost perspective that is out-of-line, likely not over-fertilizing, few chemical passes, Ag. Economists don't have much advice here)**

FBFM Resources

- **Economic Management Analysis report**
- **EMA trend-line worksheet**

FAST tools

- **Enterprise Allocation worksheet**
- **Breakeven Analysis**
- **Farmland Lease Analysis**
- **Ratio Analysis**

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Thank you for coming