

FARM Library

Financial and Risk Management Database

Improving farm management skills one topic at a time

Decisions vs. the Bottom Line

There are countless decisions that must be made each year, from planting a crop to marketing that crop. Every producer has to make essentially the same decisions each year, so why do some come out more profitable than others? There are certainly geographic differences such as soil types, weather events, etc. that make a difference, but NFBI's averages reveal more detail than that.

Irrigated Corn, Cash Rented Land, 2016			
	Low 1/3	Average	High 1/3
Yield	197.06	204.16	208.51
Price	\$3.26	\$3.40	\$3.55
Other Income	\$72.19	\$60.54	\$70.46
Gross Return	\$714.61	\$754.68	\$810.67
Seed	\$100.13	\$97.77	\$99.46
Fertilizer	\$139.72	\$110.18	\$85.79
Chemicals	\$52.32	\$47.83	\$44.68
Crop Insurance	\$26.68	\$31.78	\$33.70
Operating Power/ Machine Costs	\$150.55	\$140.50	\$128.33
Land Rent	\$236.43	\$238.08	\$228.86
Other Direct Costs	\$95.01	\$76.41	\$67.98
Overhead Expenses	\$37.29	\$50.60	\$71.73
Total Expenses	\$838.13	\$793.15	\$760.53
Net Return	\$-123.52	\$-38.47	\$50.14
Expense per Bu.	\$4.25	\$3.88	\$3.65

Looking at NFBI's averages, you can see differences in expenses between the high and low profit operations. These numbers are from our annual average books and more detail can be found in the Whole State average book. Each column in the table below contains the same operations sorted by net return. For example, the total expenses of \$760.53/ac in the High 1/3 column produced the yield of 208.51 bu./ac.

The Irrigated Corn, Cash Rented numbers show a couple of "major" differences:

- Fertilizer cost is \$53.93 per acre different between the high and low profit 1/3.

Irrigated Soybeans, Cash Rented Land, 2016

	Low 1/3	Average	High 1/3
Yield	71.94	72.49	73.40
Price	\$9.22	\$9.23	\$9.20
Other Income	\$23.13	\$34.47	\$81.24
Gross Return	\$686.42	\$703.55	\$756.52
Seed	\$84.69	\$78.02	\$72.03
Fertilizer	\$60.37	\$52.07	\$20.82
Chemicals	\$50.23	\$51.84	\$46.21
Crop Insurance	\$29.31	\$24.80	\$18.08
Operating Power/ Machine Costs	\$132.30	\$125.35	\$110.91
Land Rent	\$279.56	\$240.10	\$201.22
Other Direct Costs	\$78.11	\$65.29	\$60.09
Overhead Expenses	\$43.35	\$43.92	\$41.97
Total Expenses	\$757.92	\$681.39	\$571.33
Net Return	-\$71.50	\$22.16	\$185.19
Expense per Bu.	\$10.54	\$9.40	\$7.78

- Operating Power and Machine Costs is \$22.22 per acre less between the high and low profit 1/3.

Operating Power & Machine Costs include Fuel & Oil, Repairs and Supplies, Custom Hire, Depreciation and Machinery Leases.

When looking at Irrigated Soybeans on Cash Rented Land we are finding a little different result. As a reminder, the high profit 1/3 is sorted per enterprise so the farms included in the high profit 1/3 of corn will not necessarily be the same in the soybean high profit 1/3.

These numbers show a fairly significant decrease in almost every expense category. This time land rent, fertilizer, and machinery costs stand out

as the biggest differences, but they are not as significant as in Irrigated Corn on Cash Rented Land. The overall cost change between the high and low 1/3 profit, in Irrigated Soybeans on Cash Rented Land is 25% and it's coming from all expense categories!

What allows 1/3 of the producers to spend almost 40% less in fertilizer costs on Irrigated Corn on Cash Rent Land and still raise an extra 11 bushels? Knowing that there are the geographical differences that could be at play, it could also be a one year cut back on the amount of fertilizer applied where the yield effect may not show for another year or two as the nutrients in the soil are depleted.

It could also be the "Zombie Effect". Dr. David Kohl used this term in a Corn and Soybean Digest article (What are you doing differently? – May 2017) to describe those producers who go through the process of making many decisions as a zombie. This may be just "doing whatever I did last year" rather than re-evaluating each decision for the new economic environment we are in. It could also be the assumption that we will have a significant weather event to "fix the prices" rather than working to "fix costs" in this period of lower crop prices.

Often times, producers think that they have no control over their costs. John F. Kennedy once said “The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways.” While this is true, it doesn’t mean there are not options. As a producer you decide which seed variety to buy, how much fertilizer to apply, which pieces of equipment you need to buy, how to manage your income taxes, when to plant, when to harvest, and which advisors you hire to help you make these important decisions. It’s time to lose the “Zombie” attitude of having no control and learn how to manage each decisions by how they affect the bottom line.

Managing your operation’s cost can be time consuming and frustrating. However, having a handle on your record keeping process allows you to see what you are actually spending to produce the crop. By placing priority on the time spent managing and making decisions for your operation you can improve bottom line.