

# FARM Library

Financial and Risk Management Database

*Improving farm management skills one topic at a time*

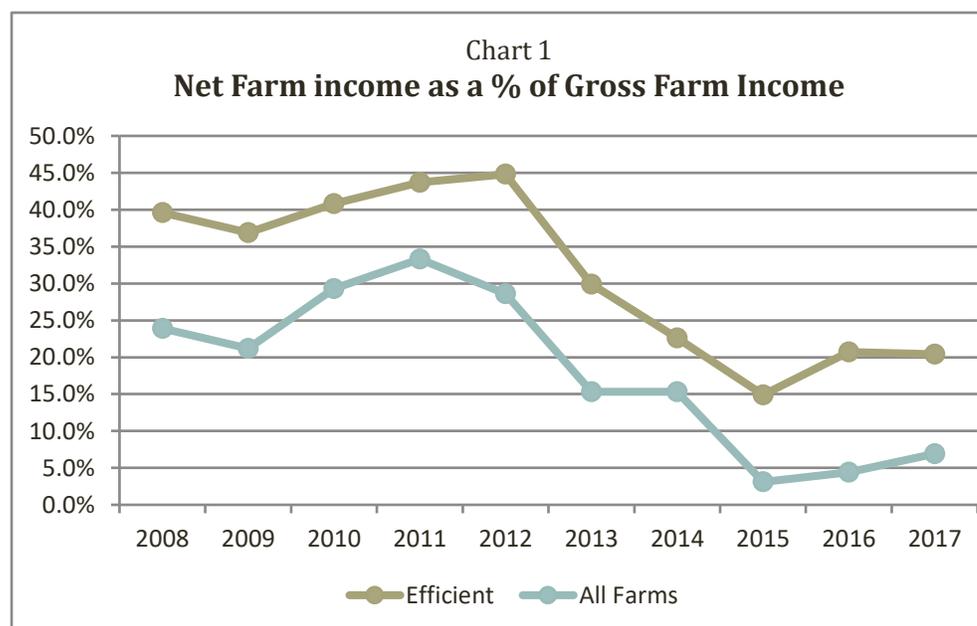
8/30/18

## Moving from Surviving to Thriving

A few weeks ago, I was in a meeting where we were discussing the education needs for Nebraska's agricultural producers for the upcoming year. I kept hearing themes of hitting break-evens, survival in tough times, and other topics that certainly seem appropriate in tight economic times. It made me think about why we are shooting for break-even and survival. Why are we not aiming higher? Why are we not aiming to help farmers thrive economically instead of just surviving another year? Zig Ziglar has a famous quote about goal setting that says, *"If you aim at nothing, you will hit it every time."* In a similar manner, if you only aim for break-evens and survival, why would you expect anything more?

I spend a lot of time looking at and talking about average farm data but what I really find interesting is the variety within average. For example, our average net farm income ranging from highest to lowest is almost always a stretch of over \$1 million. Even when our net farm income average was negative in 1984, there were farms that made money. What makes them different? It's not an easy question to answer. Usually when asked, I say that if I knew I'd be farming instead of doing this job! We started to try and answer that question by separating some of the farms that we know are consistently profitable into our Top Efficient Farms Study. This book that we publish each year contains a group of producers who consistently keep their Net Farm Income Ratios above 20%, even in years when corn is not \$6. The Net Farm Income Ratio shows us

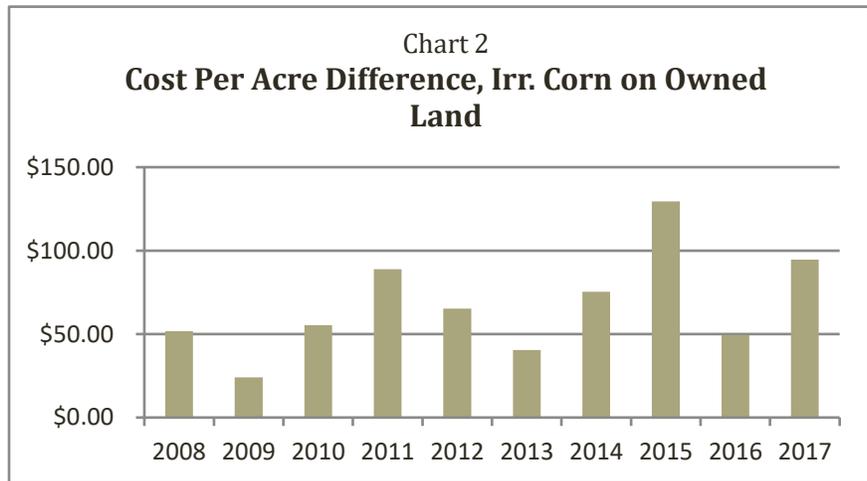
how many cents of every dollar brought in through Gross income is kept. Our state-wide average typically runs around 12-13%. We try to keep this group of producers as consistent as possible so even if they have a bad year, they are included and we



aren't just putting the best farms from each year in this group.

Chart 1 shows the Net Farm Income Ratio Trend for both the Top Efficient farms, and all the farms included in our averages. You can see they typically follow the same trend line but the

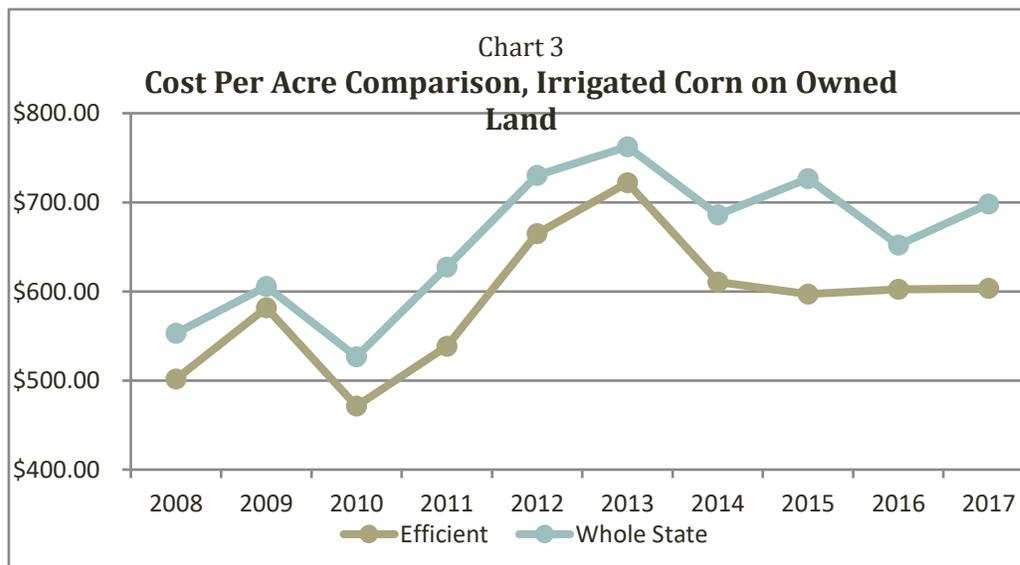
Top Efficient group consistently keeps 10-15% more of their gross income. I could fill these pages with charts that show there is very little different in their gross income, marketing prices, yields and even major inputs like seed, fertilizer or cash rent. I have the charts because I assumed it had to be seed discounts, lower fertilizer application, cheap cash rents, etc., but I can't



find numbers to support those assumptions. The one thing that the numbers will show me is that the over the past 10 years the average Top Efficient Farms have profited \$67 per acre more than the average of all farms. How do they end up with a significantly larger profit per acre without a cost difference in those major areas? This brings to mind an old adage that is often attributed to Ben Franklin. *"Watch the pennies and the dollars will take care of themselves."*

When we line up the costs per acre between these two groups we often see the differences add up in small amounts. It may be \$1 savings in Utilities, \$5 in Interest, \$3 in Miscellaneous, \$5 in Labor. None of these expenses seem significant on their own but they add up to something significant.

Chart 3 shows the per acre difference for each of the past 10 years. I find this chart very interesting in the fact that for the past four years the cost per acre for the Top Efficient Group



has been held almost completely steady. It looks to me like there is planned and controlled spending to keep costs at that level. It takes daily discipline to stay on a budget. It's often easy to say "It's just \$100, let's do it." Or "It's only \$5 per acre." Neither expense seems like it could really impact the bottom line but the 10-year average cost per acre difference is just 13 \$5 per acre decisions per year.

So, my challenge to you is to think about each decision and how it affects your bottom line. Does that \$10 fertilizer additive return you at least 4 bushels? If not, why spend it? Do you need that extra \$100 tool or could you borrow one from your neighbor? After all, "*a penny saved is still a penny earned*"!