

Characteristics of High Profit Farms and Farmers

By Zachary Fore, Regional Educator, Cropping Systems, University of Minnesota Extension Service
forex002@umn.edu

What are the key components of profitable crop farms? It is difficult to find simple formulas for complex issues. Crop farms come in an infinite variety of shapes and sizes. Farmers likewise come with a wide variety of skills, talents, and philosophies. Even so, are there some specific characteristics that most successful farms have in common?

There are numerous sources of information on the characteristics of high profit farms and farmers from many sources including Australia and Canada (where there is little government support of agriculture), Illinois, Kansas, and North Dakota. Although the sources may be outside of this region, much of what they write is applicable for Northern Great Plains crop farmers. Here are the key characteristics they identified:

Australia – Ten Characteristics of High Profit Farmers

1. They are production driven. Always produce more per acre than average.
2. They have good expense control, resulting in a low cost per unit of production. Dollars per acre spend may be higher, but input dollars are spent in ways that increase yields, resulting in a lower cost per unit produced.
3. They sell their products for a premium - take advantage of price premiums for quality or other factors.
4. They take time to be exceptionally well informed.
5. They run a simple management system. They minimize the number of different enterprises, and focus on areas that have the highest and most predictable potential for profit.
6. They do not overspend on equipment.
7. They set goals, plan, and clearly identify objectives.
8. They have a good grasp of their financial affairs.
9. They are prepared to take risks and can cope with debt.
10. They thoroughly enjoy what they do.

Quote: ‘All of the above ten features can be condensed into one simple benchmark for commodity producers – cost of production. The most consistent overall feature of high profit farms is a low cost per unit of production.’

(Source: ‘How to Run a High Profit Farm’, Holmes Sackett & Associates www.hs-a.com.au)

Canada

Successful Farmers:

1. Have an optimistic attitude about their future in agriculture.
2. Think like an executive, visualize the big picture, and consider ‘what if’ scenarios.
3. View change as opportunity.
4. Possess a broad blend of skills including interpersonal, communications, and listening skills.
5. Push for information rather than waiting for it to come to them, often going right to the source.
6. Innovate new approaches to business arrangements, such as networking, alliances, and diversification.
7. Keep up to date on marketing strategies.
8. Understand risk and are willing to accept it.
9. Know their operations well, including having and using thorough financial records.
10. Use the available tools.

Quote: ‘Good management is not about doing any one thing 1,000% better. It’s about doing 1,000 little things 1% better’. (Source: Canadian Farming, Fall 2001).

Illinois

Notable characteristics of the high profit group compared to the low profit group include:

1. They farm more acres.
2. They own less land (7% vs. 25%), and rely more on share rent (in recent years, the landlord has shared the pain of low crop prices).
3. They have lower costs in all categories.
4. High profit farms usually are not in the high profit category every year, but they typically are in the high profit category often over a period of years.
5. They may take an average price, while they strive to reduce variability, and focus on maintaining low costs and increasing farm size.
6. They adopt technology faster.

Quote: "Overwhelmingly, controlling costs per unit of production is the most important factor in profitability," based on a comparison of 600 corn-soybean operations with similar soil. "Price received per bushel was within pennies in each profitability category, so marketing is not a significant advantage. The top group's corn yields were 12 bu.--about 8%--better than the lowest group's, but bean yields did not differ significantly, and it is not that larger farmers are using more fertilizer or crop inputs (see Table 1)," Gary Schnitkey, University of Illinois Extension Economist.

**Table 1. Comparison of High and Low Profit Groups
(six-year average return)**

	Low Profit Group	High Profit Group
Total acres	672	1,007
Owned	171 (25%)	74 (7%)
Share rent	311 (46%)	789 (78%)
Cash rent	190 (28%)	144 (14%)
Total costs (\$/A)	430	340
Land	133	98
Power	71	55
Buildings	23	19
Labor	50	30
Variable inputs	99	92
Other	54	46
Yields (bu./A)		
Corn	148	160
Soybeans	47	50
Prices (\$/bu.)		
Corn	2.48	2.50
Soybeans	6.25	6.02

(Source: 'Traits of Profitable Farms', Top Producer Feb. 2002)

Kansas

Records from more than 1,000 farms that were continually enrolled in the Kansas Farm Management Program from 1987-1996 were used to analyze the effect of management on profitability. Overall, the study indicates that farmers should focus:

- first on cost per unit of production
- then on technology adoption
- then on yield
- and lastly on price

(Source: 'Crop Management Factors: What is Important?' Terry L. Kastens, Kevin C. Dhuyvetter, Heather Novens, and Danny Klinefelter).

North Dakota

Highest profit farms:

- Had lower expense per unit of production
- Had lower interest expense
- Owned less land
- Were larger
- Had higher crop returns per acre

(Source: 'Profit Consistency and Management Characteristics for Successful North Dakota Farms, 1995-2000', Richard D. Taylor, Won W. Koo, and Andrew Swenson, NDSU, Fargo, ND).

Conclusions

The lists of characteristics are very interesting, though not surprising. The most common characteristic observed was: profitability is highly correlated with having a low cost per unit of production. This is interesting but is it very useful? It's like saying 'If you sell it for more than it cost you to produce it you will make money. And, 'If you can increase your selling price and/or reduce your production costs you can make more money'. These conclusions by themselves are not that useful. However, what is important is 'what characteristics of profitable farms and farmers lead them to have a low cost per unit of production?' From the lists of characteristics given, these are the key characteristics for farmers in this region:

- They focus on production and have consistently high yields
- They have an excellent handle on the financials of their business – they spend their time where they get the best returns
- They are exceptionally well informed and take time to plan
- They adopt new technologies quickly and appropriately
- They keep equipment costs in line
- They have a positive attitude