

# Getting More for What you Grow: Be Better, First, or Different

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There is a simple formula for success in agriculture:  $\text{Yield} \times \text{Price} - \text{Expenses} = \text{Profit}$ . It means growing as much of a product as you can (Yield), paying only for inputs that will return more than they cost (Expenses), and then getting as much as you can for what you grow (Price).

Simple, but definitely not easy. How can we tilt this equation in our favor? For your farm to be successful, each enterprise must be at least one of the following: *first*, *better*, or *different* compared to your competition. Which one you choose is up to you. Let's deal with each one separately to help you decide which one you will focus on to be successful.

**Better:** Better means that you are the most efficient producer – on a cost per bushel or cost per unit basis, you are the cheapest. To be better you have to constantly focus on increasing production and decreasing expenses. Most producers currently fall into this category. Producers of undifferentiated commodities such as wheat, corn, soybeans, canola, etc. fall into this category. In recent years it has been very difficult to be profitable using the 'better' philosophy. Prices have been low and production in many areas has been low due to unfavorable environmental conditions and other factors. There has been some opportunity to get a price better than the loan rate by carefully using the LDP and other marketing tactics, but the average gains are relatively low.

**First:** Often, the first to produce a product can receive a price premium. A few examples are high oil corn, waxy corn, and clear hilum edible soybeans. (Jerusalem artichoke comes to mind here, but that is really not the kind of example I am looking for). You likely can think of other examples. These products often have a price premium early, which decreases with time. Therefore, if you are not first, you do not benefit, or do not benefit as much. One characteristic of being first is that you have to continually identify new products to be first in. Being first carries some risk, such as: Will this variety or crop yield well here? And, can I meet the quality requirements? Being first may allow growers to be less concerned about yield and expense because they are growing the crop for a price premium. However, being the low cost producer will be of a benefit no matter what you produce.

**Different:** Being different—or more specifically, differentiated—means producing something that most others are not willing or interested in producing. A good example of differentiation is organic production. Organic products generally command a price premium in the marketplace. Producing organically will require changes in the way you farm. Some growers are willing to make those changes, and others are not. That is precisely why there is a price premium.

The take-home messages:

- You can be successful by being first, better, or different.
- Most producers strive to be 'better' – be the low cost producer of commodities.

- There is a price premium for being first, but you have to continually identify new things to be first at.
- There is a price premium for producing something different, but you will likely have to change your operation in some way to produce for this category.
- The biggest price premiums are obtained when you combine more than one of the categories. For example, being the first to produce a different product may have huge price premiums. Being the low cost producer (better) will benefit you no matter what you produce.

The current situation and future trends suggest that it will be more and more difficult to be successful by simply being better. The low cost producers are likely to be increasingly from places such as South America, Canada, and New Zealand. The key to future profitability lies in our ability to become first and different, and do it as quickly and efficiently as possible.