

Increasing Profits by Managing Expenses

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Profitability per acre can be defined by a simple equation: $\text{Production} \times \text{Price} - \text{Expenses} = \text{Profit}$. Improving profit per acre, therefore, means that you must increase production, increase price, and/or decrease expenses. A study of the profitability data for this region makes it clear that by far the most important of these three options is to increase production. However, other improvements can be made, and we cannot ignore price (marketing) or expenses. The focus of this article is managing expenses.

Notice that I use the word *manage*, not *reduce* expenses. After all, you are not farming to keep expenses down, you are farming to generate profit. (At least profit is probably part of why you are farming.) You need to carefully scrutinize every cost. Look to see that each cost is giving a positive return. Be careful not to reduce expenses that will generate profit. For example, this season some producers may decide that they are not going to use foliar fungicides in wheat because the budget is tight and wheat prices are relatively low. This is an invalid decision. The only time that decision can be made is during the season when the impact of using or not using a foliar fungicide can be evaluated.

Here are a few things to consider to help manage expenses:

Scrutinize everything that is referred to as ‘cheap insurance’. Too much ‘cheap insurance’ can add up to ‘expensive insurance’. When you spend money for an input make sure that you really need it.

Scout your fields. Monitor fields closely, especially for in-season pests. Don’t use a herbicide, insecticide, or fungicide ‘just in case’. Make sure you need it and can justify it. If your scouting indicates that you need to control a pest, make sure to do it in a timely fashion. There are economic thresholds and decision aids to help determine whether a control measure is required or not. Use these tools.

Soil sample. Information from soil samples will help you use fertilizer only where it will give a return. Don’t just arbitrarily cut fertilizer rates because fertilizer is expensive. P (phosphorus) and K (potassium) levels don’t change rapidly in soils, but N levels change every year. Nitrate samples will tell you how much available N is in your soils, and will help you put the right amount of N where you need it.

Apply fertilizer in a band. Under certain circumstances rates of P and K may be reduced when applied in a band instead of broadcast. Banding does not allow you to reduce N rates. See your University recommendations to determine if you could reduce P and/or K rates by banding.

Don’t waste money on quack fertilizers, chemicals, and additives. During difficult economic times the quack products seem to come out of the woodwork. Many of these products claim that you will get increased yields, or can reduce fertilizer or chemical rates without losing yield. Use tried and true products and additives that are recommended by the chemical manufacturers. These manufacturers have every reason to recommend additives that will make their products work effectively and consistently.

Don't increase your equipment expense unless you really need to. A Nebraska study determined that the most profitable farms had an equipment expense that was just over half that of the average farm. Resist the temptation to talk yourself into equipment you don't really need.

Negotiate variable rent agreements on land you rent. This is a win-win proposition. When you have a profitable year and can pay more rent the land owner gets more. If you have a down year and you can't pay as much you pay less rent. This gives the land owner incentive to improve the land. You can negotiate a minimum and maximum amount to make everyone more comfortable.

These are a few ways to consider managing expenses. I am sure you can think of other ways. However, as you consider managing expenses, remember, our ultimate goal is to increase profitability, not reduce expenses.