

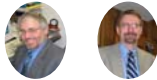


## Future of Agriculture Economies of Size and Trends in Agriculture

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## Not a “futurism” discussion . . .

- **Futurism**
  - About cool things way in the future
  - Fun to talk about
  - Daydreaming, the mind wanders and wonders
  - Can hear about it and forget it
- **Nearby future**
  - Our lifetimes (and what happens at our death)
  - Often painful realities upon us
  - May have to make decisions today
  - Probably won't go away
  - Consider that which is statistically probable
  - That which is driven by economic forces

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## What motivates farmers?

- **Farming: profit or lifestyle?**
  - Profit (economics) will drive the broad trends
- **About what will make *some* farms profitable in the future**
  - The ones that will be around in commercial ag
- **One part of a bigger picture**
  - What to do with wealth
  - What to do with human capital (personal skills)
  - How does personal happiness fit in?

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## Economies of size: the driving force

- **Per-unit costs fall as a firm gets bigger**
  - Essentially about spreading fixed costs
  - May mean higher prices instead

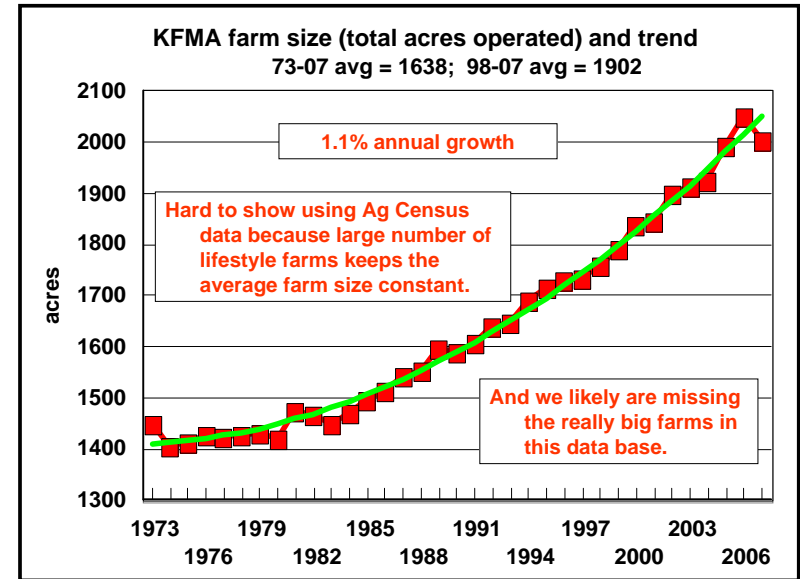
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## Is EOS for real?

- Is there a benefit to targeting growth and size?
- Or, is growth an accident of good management (plowing profits back into the farm or business)?
  - Walmart: size, or a good retailing idea??
  - Why don't we observe numerous small packing plants?
  - Why don't we observe many small farms with a common manager?



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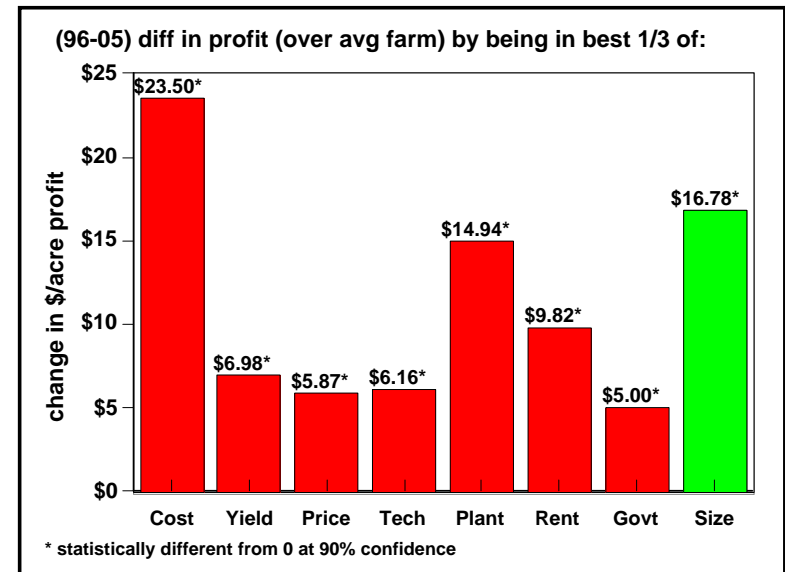
Farm size has been increasing at an increasing rate for COMMERCIAL farms

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## Is EOS for real?

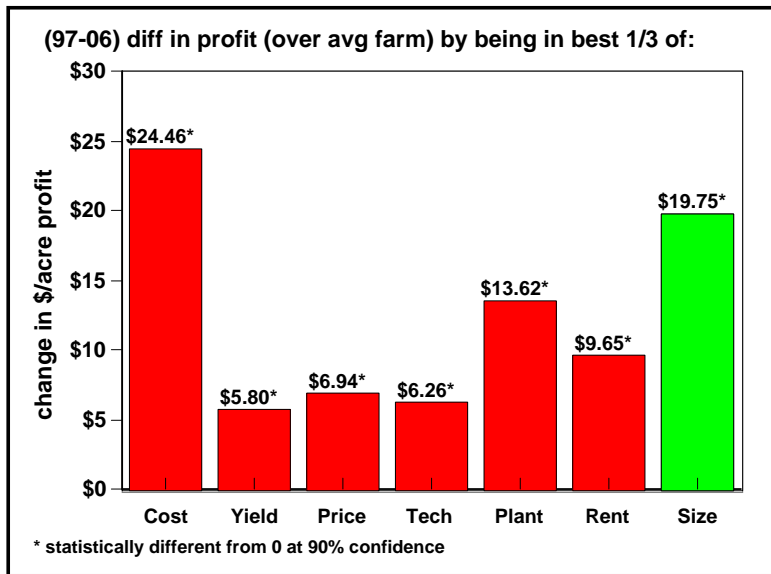
- Hard to distinguish effect of good management and other factors from the effect of size
- Statistical regression is one way to do it
  - After you correct or adjust for the impact of other factors, is there still a positive impact on profit associated with size?

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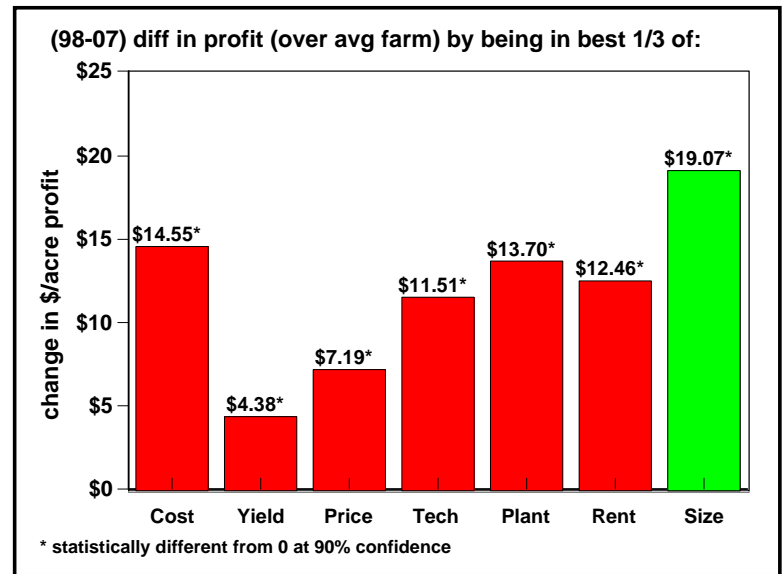


A size effect remains – evidence that EOS is for real

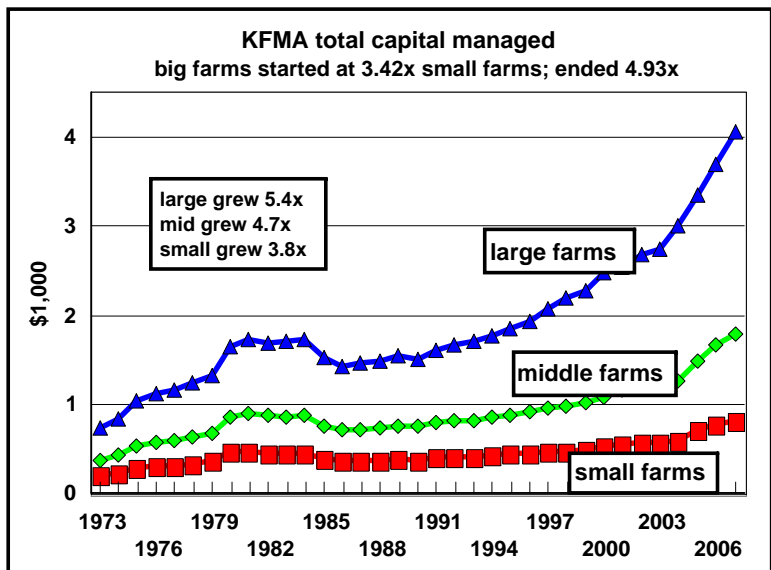
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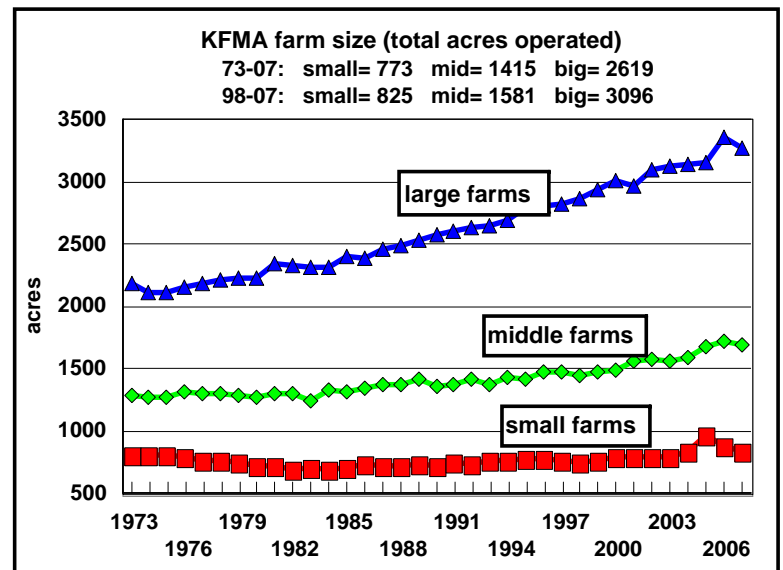
EOS becoming more important, absolutely and relatively

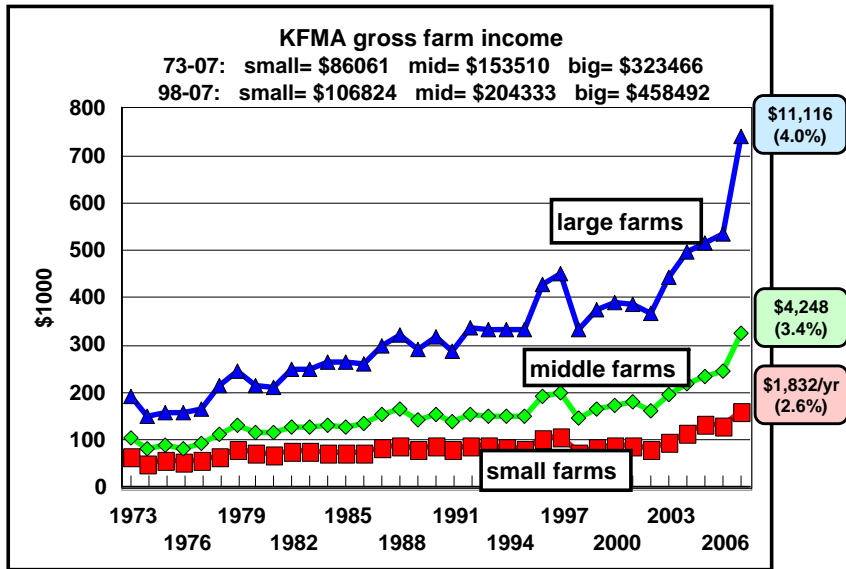


EOS becoming more important still -- relative to always-big "Cost"

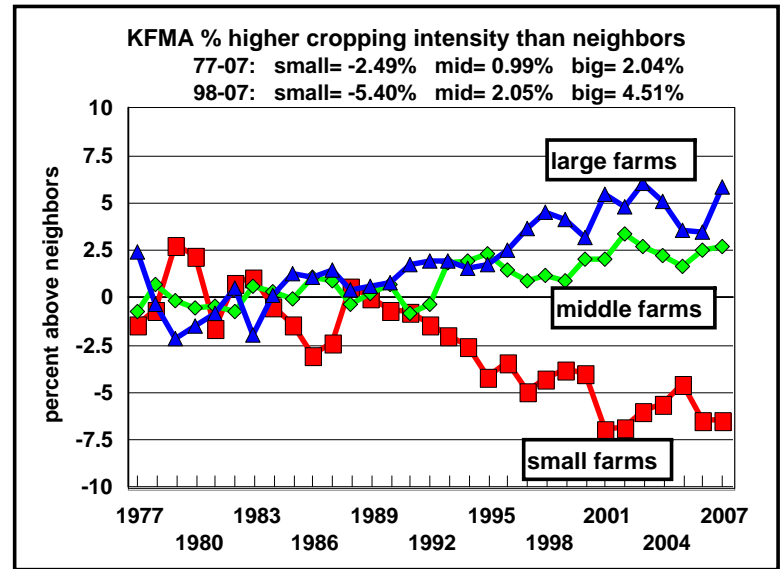


A portion of growth in \$ values is inflation

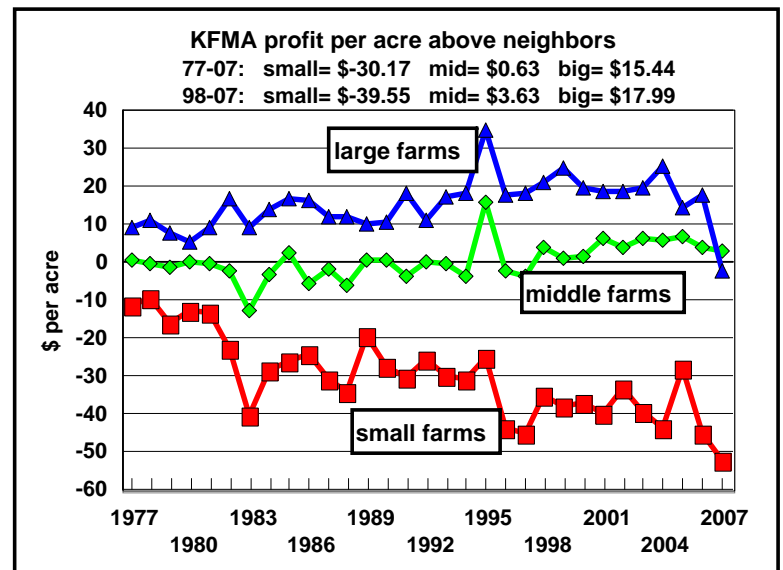
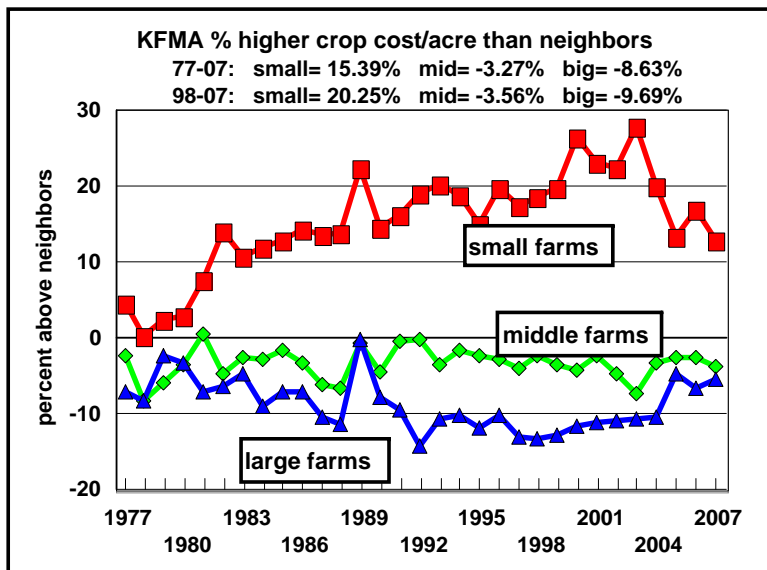




Even the "big" farms aren't all that big!



Big and small really departing from each other in last 20 years



The characteristic differences across farm sizes result in profit differences

## Why are large farms more profitable?

- Lower cost is the obvious benefit, but other benefits arise from the research
- Larger farms:
  - Have much lower costs
  - Get somewhat higher yields
  - Get slightly higher prices
  - Farm more intensively
  - Are much faster adopters of technology, for example, less-tillage

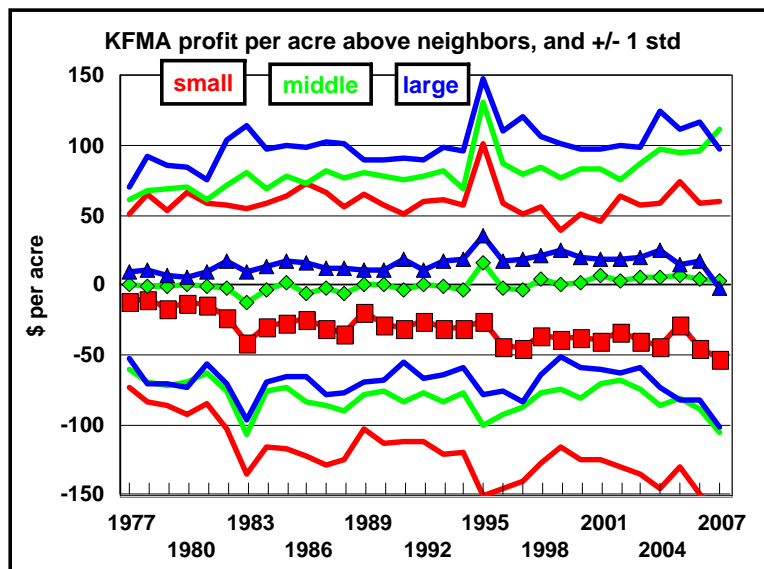
22

## Large farms are not only more profitable

- The disparity between large and smaller farms has been growing over time.
- Will the traditional **one-family** family farm soon be a thing of the past?
  - The family farm will go on but it will be an extended family
- Farming will become increasingly bimodal

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### More important to be good than to be big ...



... so don't use inadequate size as an excuse to be unprofitable

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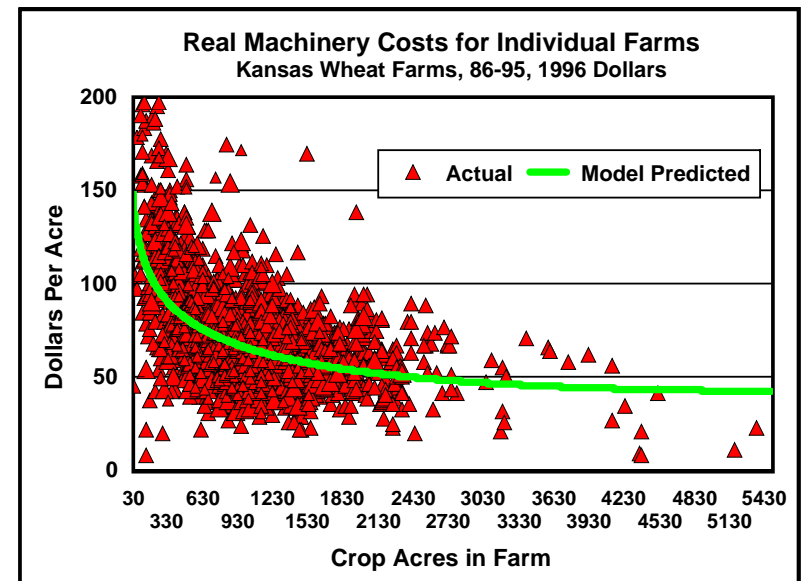
## No right to profit from size

- Being large does not ensure profitability
  - Inherited, but poorly managed (inattentive to size and growth issues), farms are an example. Though it might take years, such farms eventually disappear.
- A poor-managing heir would be better off:
  - Investing his/her wealth elsewhere
  - Renting the land portion to a good manager

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## Do EOS turn to diseconomies at sufficiently large size?

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You be the judge! But where are the 10,000 acre farms and what might their machinery costs be?

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## Do EOS turn to diseconomies at sufficiently large size?

- Government payment limitations?
  - Business structure
  - Willingness to share ownership and management
- Large farms often are targeted for...
  - environmental concerns (EPA)
  - crop insurance audits
  - terrorism?
- Can management handle size and growth?

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## What about niche farming? Do we really need to get on the EOS bandwagon?

- Targeting a niche is a risky game plan
- Perceived niches not immune to EOS
  - “Remember, every niche is a commodity in the making.” Vincent Amanor-Boadu
- Becoming a large commercial farm also is a risky plan
- Recognize your comparative advantage



## Capturing EOS without growth

- Formal and informal business arrangements to capture EOS
  - Machinery partnerships among farms
  - MachineryLink and other rental services
  - Custom farming services
  - Input buying groups
- Here to stay....?
  - Transaction & timeliness costs may be too high
  - Possibly transitional only – ultimately one partner likely will emerge as dominant (but important transition)
  - Custom operators will give preference to size
- Successful farms will become
  - Astute assessors of costs for asset ownership and use
  - Astute price negotiators (to retain the related EOS)

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## Changing EOS features across farm size

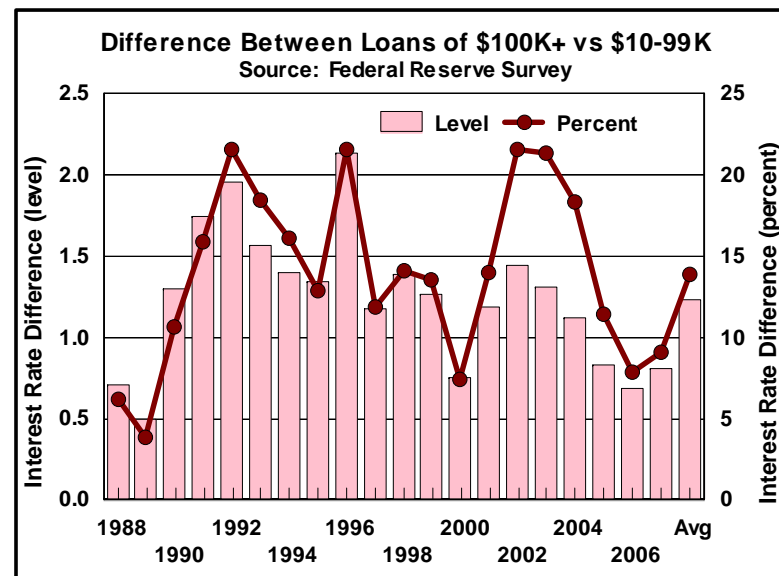
- Labor first
  - Labor is fixed and it pays to be fully employed
- Machinery second
  - Bigger machines are less expensive per unit of capacity

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## Changing EOS features across farm size

- Other things third
  - Management can be spread over still more acres
    - e.g., marketing, hybrid selection, technology evaluation, assessing FSA or crop insurance opportunities
  - Quantity price discounts or premiums
    - Crop sales
    - Machinery and crop input purchases
    - Larger loans mean lower interest rates

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Bigger loans have lower interest rates

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## Changing EOS features across farm size

- **Less direct things fourth**
  - **Large geographical spread**
    - Less yield and profit risk
    - Quicker reliable inferences from farm level data
    - More opportunities to rent additional land
  - **Business image: landlords favor large farms**
    - Or is it youth, longevity, profitability, technological advancement, and community viability?

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## EOS implications: labor

- **Show young people they can start in farming as an employee, just like what happens in every other business**
  - Will happen as wages climb
- **Show established owner-operators how they can transform to employee/partner types without losing face, and without sacrificing wealth and happiness**

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## EOS implications: equity

- **It takes so much to get started today!**
- **Internal profits (reinvest profits)**
- **Vertical accumulation**
  - Family wealth across generations
  - Diverging goals of heirs and forebears
- **Horizontal accumulation**
  - Family or non-family contemporaneous equity
  - Minority shareholders have poor protection
- **Successful farms will overcome the equity hurdles**

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## EOS implications: debt

- **Capital is equity OR debt**
- **Debt often is the least-cost capital source**
- **If equity growth is internal:**
  - Farms using debt have an advantage for EOS
- **Recommendations to “pay down debt” are a vestige of traditional life-cycle thinking**
- **Successful farms will consider**
  - Divorcing the business from the individual
  - Targeting a debt-to-assets ratio rather than a debt level (think of agri-businesses)

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## Trends . . .

1. Increasing consolidation
  2. Rapid technological change
  3. Greater connections to the non-ag world
  4. Increased computer work and paper work
  5. More reliance on people with specialized skills
- Trends go hand in hand with economies of size
  - #5 and #4 first since often get shortchanged

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## 5. Need folks with specialized skills

- Financial management
  - Agricultural economics and accounting
- Production management
  - Agronomy and animal science
- Machinery understanding and management
  - Agricultural engineering
- Spatial data management
  - Geography
- Computer specialists
- Legal counsel
- Production ag is becoming a people world

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## Folks with specialized skills

- Recognize the need
- Do specialized consultants exist
  - Are they worth their pay?
- In house?
  - Should I get trained?
  - Should an employee get trained?
  - Formal degree program, workshop, or what?
  - Should I hire ready-made folks?

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## 4. More paperwork -- actually more computer work

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## **A. Improved accrual accounting**

- Called by different names but allows a farm business to know at any moment in time it's net worth
- Much more than cash accounting
  - Tracks inventory & capital item values
- More frequent than end-of-year
- Forward looking as for upcoming harvest

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## **B. Better capital asset management**

- Much of farm's assets are land & machinery
  - Land's value much more than agriculture
  - Machines are high dollar items
- But, knowing when to own capital assets and when to hire services is equally important

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## **C. Improved production data management and analysis**

- What do you do with reams of yield monitor or individual animal data?
- Do you know the profitability of individual fields and farms?
- Do you have the ability to perform and interpret on-farm research?

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## **D. Better day-to-day decisions on complex issues**

- Crop insurance is an example
  - Many policies and choices
  - Talking to neighbors won't cut it
- Land rental agreements is another example
  - New rotation and tillage programs complicate
  - Land rents can deviate by:
    - Soil fertility
    - Field size & shape and access
- Need to be able to objectively and numerically analyze decisions
  - "Management by numbers"

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## Getting an edge with more paperwork

- Office work must be valued
- The world runs on computers
  - Get yours running and keep it that way
  - Businesses underestimate cost of support
- The world runs on spreadsheets!
  - You or someone you're close to better understand

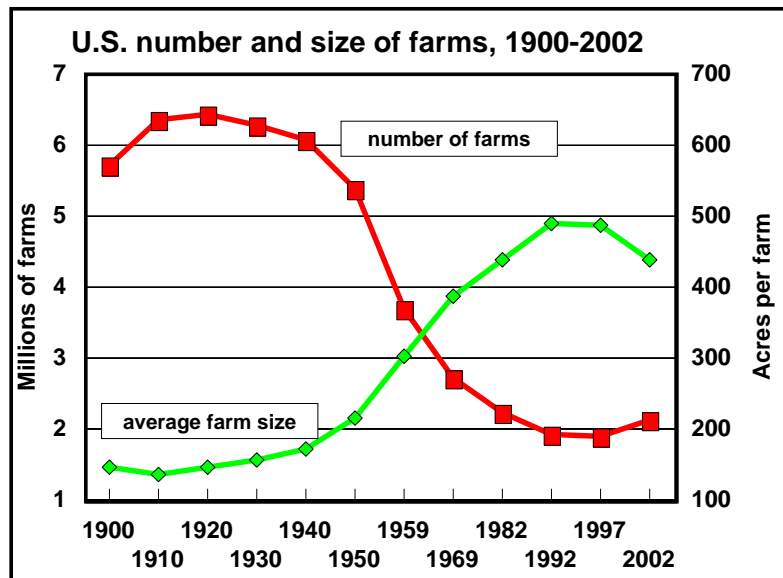
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## 1. Consolidation

- The same or more business conducted by fewer firms
  - Cars started with Ford, numerous by 1940's, consolidated by 1970's
  - Many dry goods retailers, now Walmart
  - Currently mostly JD, CNH, and AGCO in the U.S.
  - Fewer packers, cattle feeders, dairies, swine operations, and crop farms
  - But also fewer lenders, machinery dealerships, grain elevators, and crop/livestock input providers
- Driven by economies of size



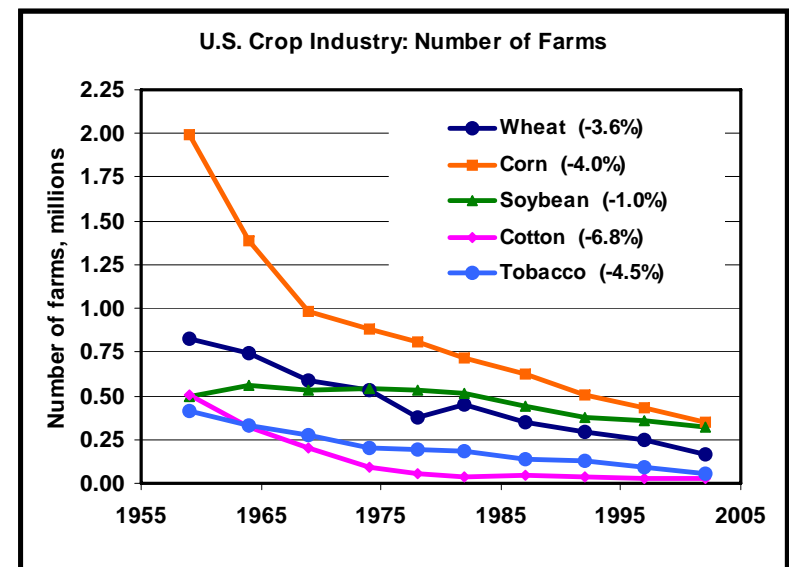
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Source: Census of Agriculture

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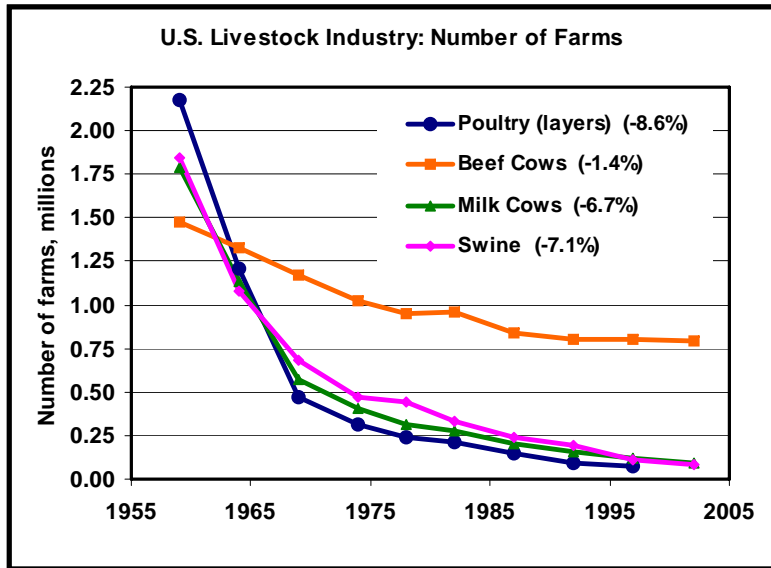
## Trends in crop farm numbers . . .



Source: Census of Agriculture

60

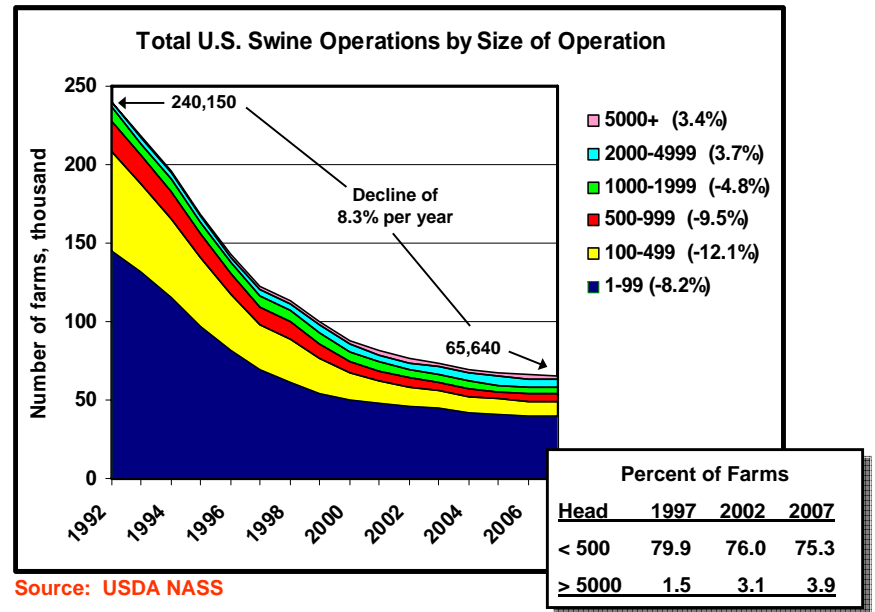
### Trends in livestock farm numbers . . .



Source: Census of Agriculture

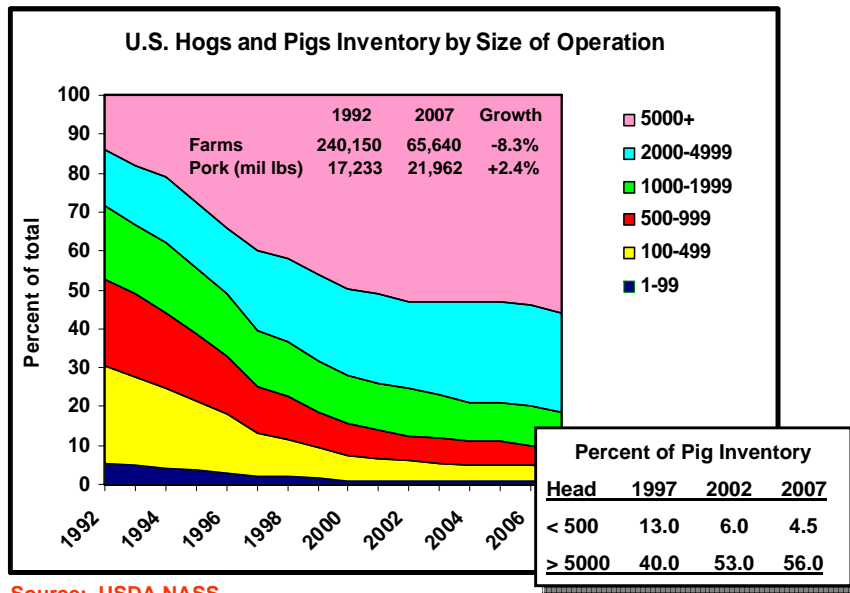
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### Rapid change in swine industry over last 15 years...



Source: USDA NASS

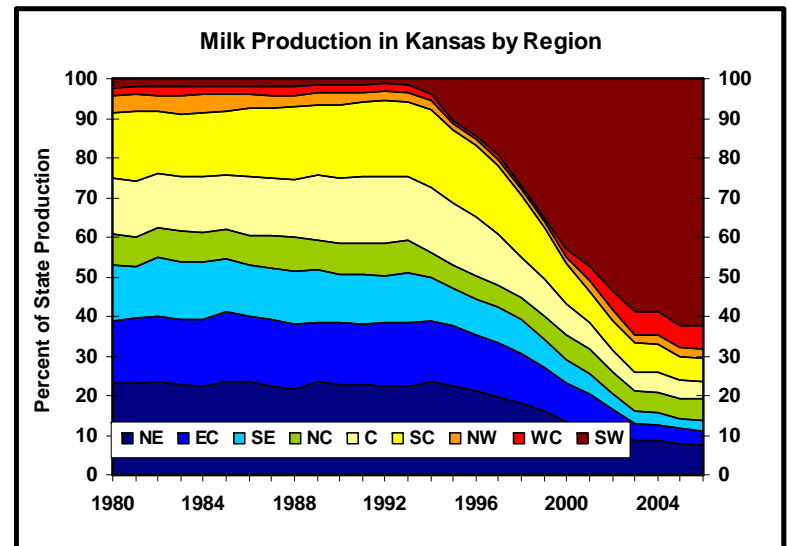
### But, pork production has not decreased...



Source: USDA NASS

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### Consolidation impacts "local" production . . .



Source: USDA NASS

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**Concentration of U.S. animal agriculture in 2007**  
(production from approximately 10% of operations)

	Size of operation (hd)	Percent of operations	% of I, M, or P*
Beef cows	100+	10.3%	53.7% (I)
1000+ head Feedlots**	24,000+	8.6%	60.7% (M)
Dairy	200+	10.9%	69.0% (P)
Swine	2,000+	11.8%	81.5% (I)

\* I = Inventory, M = Marketings, P = Production

\*\* Feedlots with 1000+ head represent 2.4% of all feedlots and account for 86.1% of marketings (2006 data)

Source: USDA NASS and K-State

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**Will consolidation in crop production speed up?**

- **Farm machinery:**
  - More like a fixed investment in factory facilities
  - Sophisticated, expensive, for round-the-clock use
- **People:**
  - Skills required are becoming more specialized
    - often requiring different people (like other businesses)
  - Management becomes fixed cost
  - Business continuity means a management team
    - even larger fixed cost
- **Remember, we never saw the rapid consolidation in poultry, swine, and dairy coming either**

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**Implications of consolidation**

- **Fewer companies, not fewer choices**
  - Product differentiation is a natural outcome
  - Few brands but many classes and features
  - Few grain buyers but many marketing packages
  - Few bankers but many loan/interest rate packages
- **Transactional (market) price less informative**
  - **Must improve people skills**
    - Farm managers will need to establish interpersonal relationships with other farm managers, so that reliable information on product prices, features, and availability can be gained through communication and consensus.
  - **Think of partners, not competitors!**

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**2. Technology**

- **Early adopters get the profits**
  - Bid into cash rents and land values
  - Higher rents mean higher costs and non-adopters find themselves going broke in the face of rents they perceive as “too high”
- **Speed of adoption depends on:**
  - A) magnitude of expected profitability
  - B) degree of confidence in the expected profit
  - C) size of investment

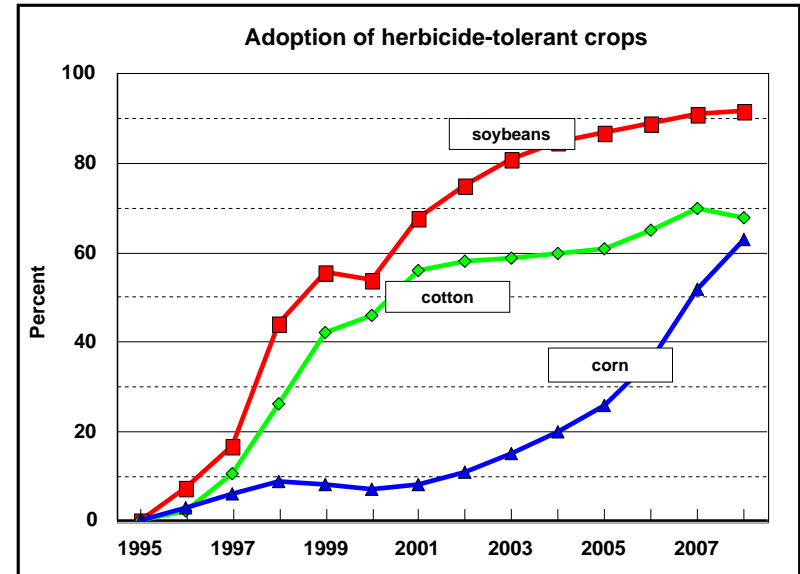
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## Technology: speed of adoption

- Big and obvious gains probably non-existent
- Small, obvious, gains along with small investment implies fast adoption
  - “belly-button” or “duh” technologies
  - Roundup-Ready soybeans

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## Some technologies are fairly obvious . . .



Source: USDA/ERS

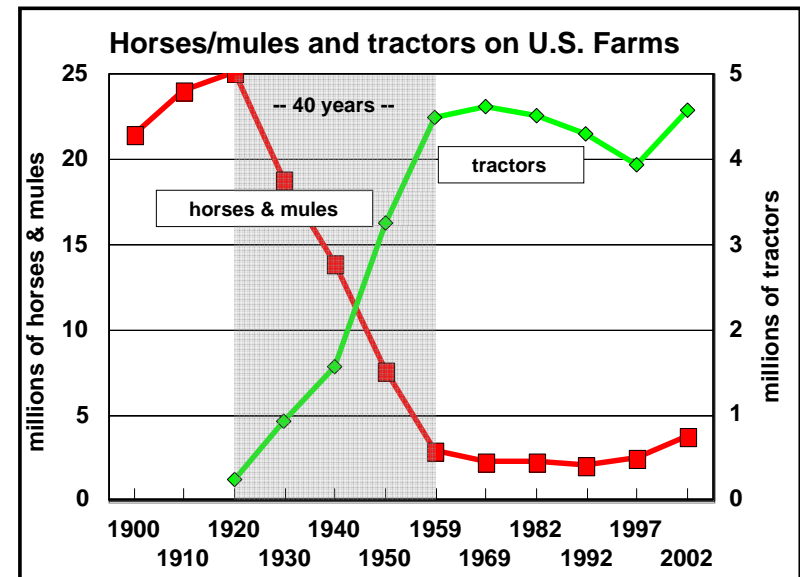
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## Other “duh” technologies (most farms)

- Lightbars (GPS guidance)
  - Gains against overlap and marker alternatives are easy to assess
  - Do take a little more investment so less adopted by small farms
- Tractor cabs
  - Hard to measure gain in \$ but know it’s there
- GPS-assisted steering
  - Larger investment than lightbars but still easy to measure advantage
  - Aspects like tractor cabs (reduces stress)

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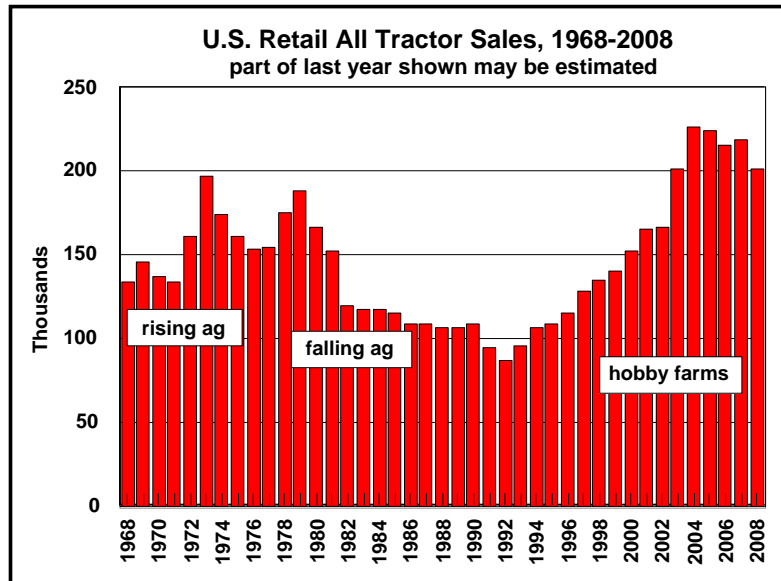
## Some technologies aren’t so obvious . . .



Source: U.S. Census of Agriculture

80

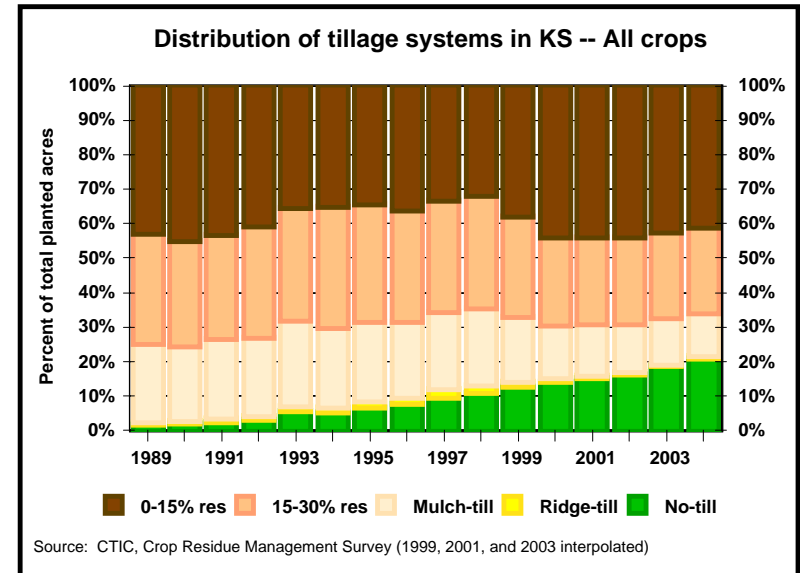
Source: Association of Equipment Manufacturers (AEM: www.aem.org)



Changing markets . . .

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Some technologies aren't so obvious . . .



Source: CTIC, Crop Residue Management Survey (1999, 2001, and 2003 interpolated)

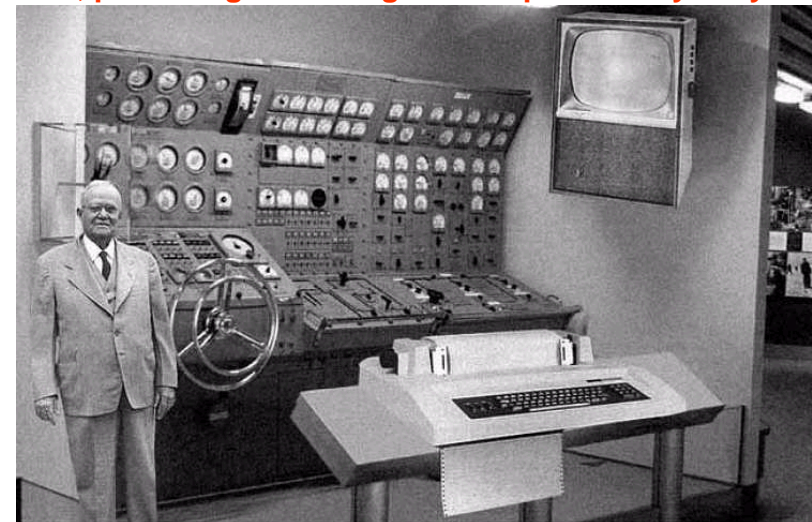
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## Technology: how to get an edge

- Invest in the “duh” technologies quickly
  - You don't have a choice
- Invest in the slow moving technologies
  - The profits will last for years
- Invest in technologies that DO NOT save labor
  - Most people do not; hence the gains last for years

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But, predicting technologies isn't particularly easy . . .



Scientists from the RAND Corporation have created this model to illustrate how a “home computer” could look like in the year 2004. However the needed technology will not be economically feasible for the average home. Also the scientists readily admit that the computer will require not yet invented technology to actually work, but 50 years from now scientific progress is expected to solve these problems. With teletype interface and the Fortran language, the computer will be easy to use.

Popular Science, 1954

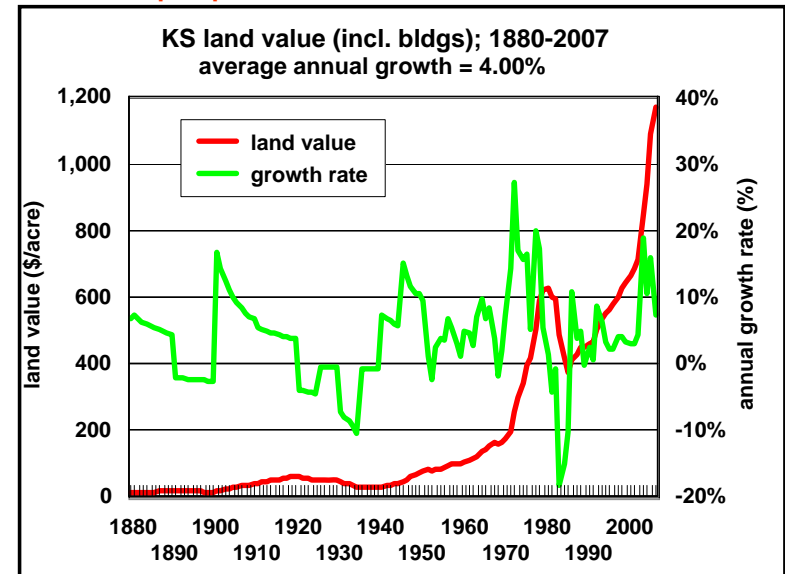
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### 3. More connections with non-ag

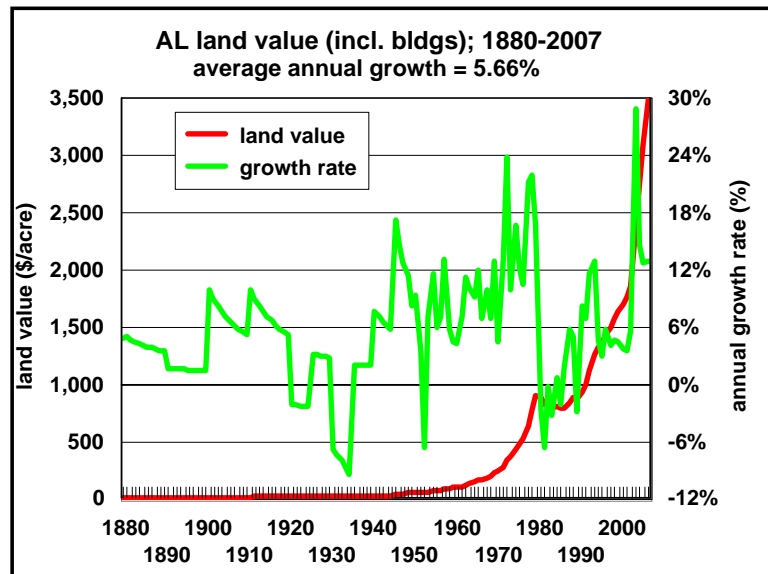
- More opportunities for farmers to sell services to non-farmers (e.g., lease hunting)
- More opportunities for farmers to invest off-farm (e.g., ethanol, or the latest value added)
- More opportunities for non-farmers to invest on-farm (e.g., landowners)
  - Most important for growth
- Increase need for analytical abilities and people/communication skills



### Historical perspective

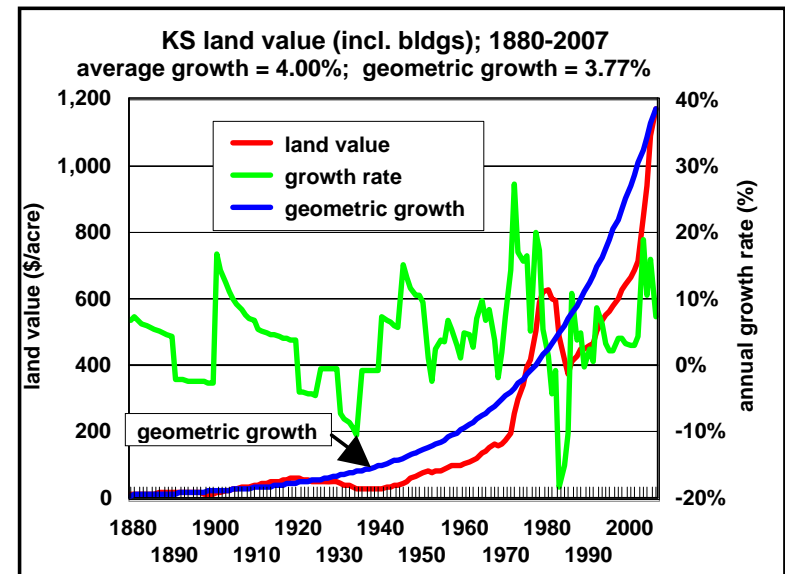


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AL did as bad in the 1930s as KS, but not nearly as bad in the 1980s

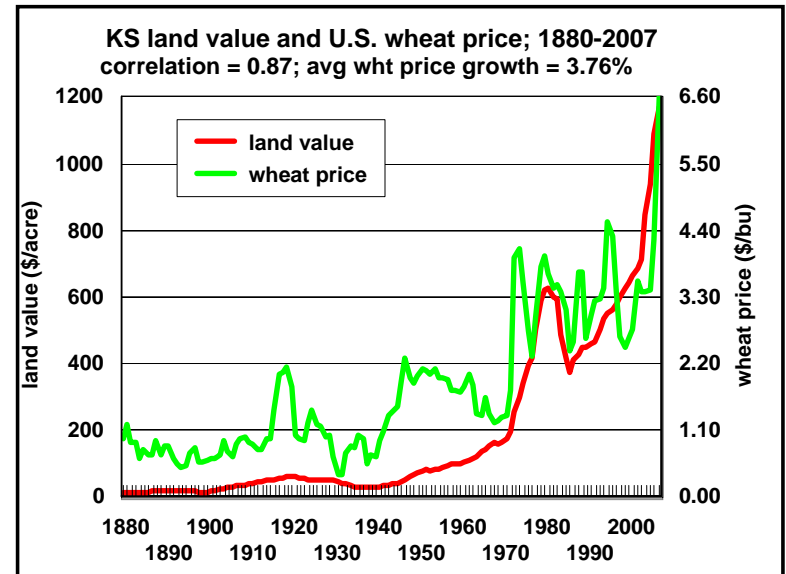
94



1879 starting land value for Kansas was \$10.30

95

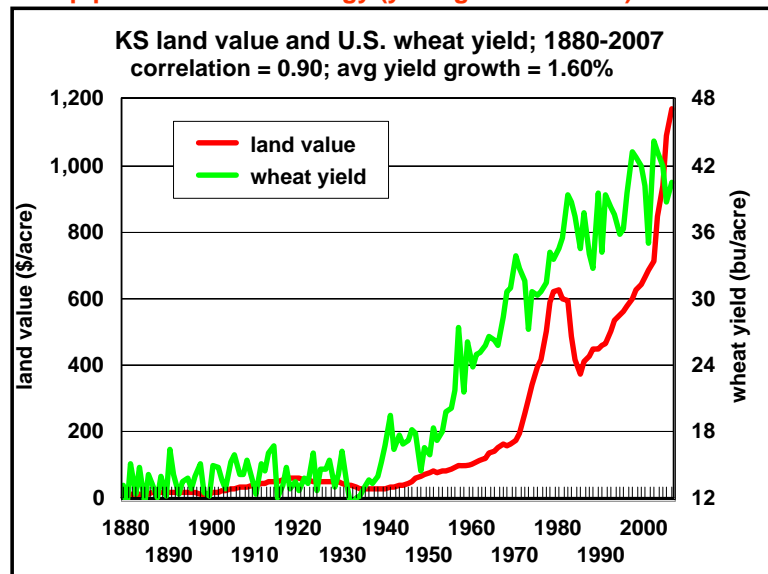
## What drives land prices in the long run?



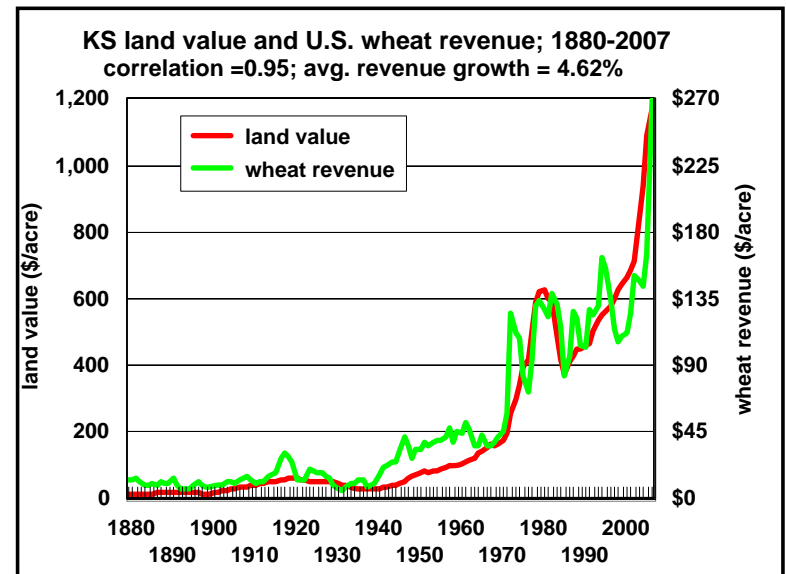
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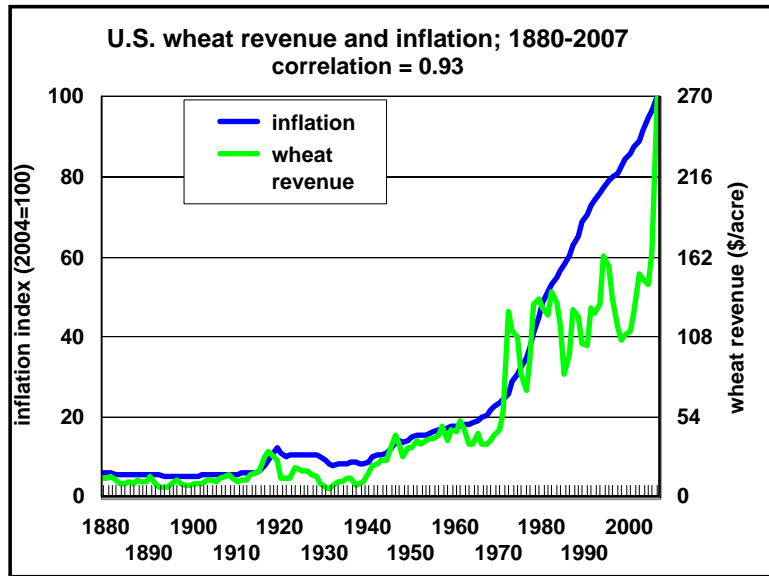
## Crop production technology (yield grows at 1.6%)



98

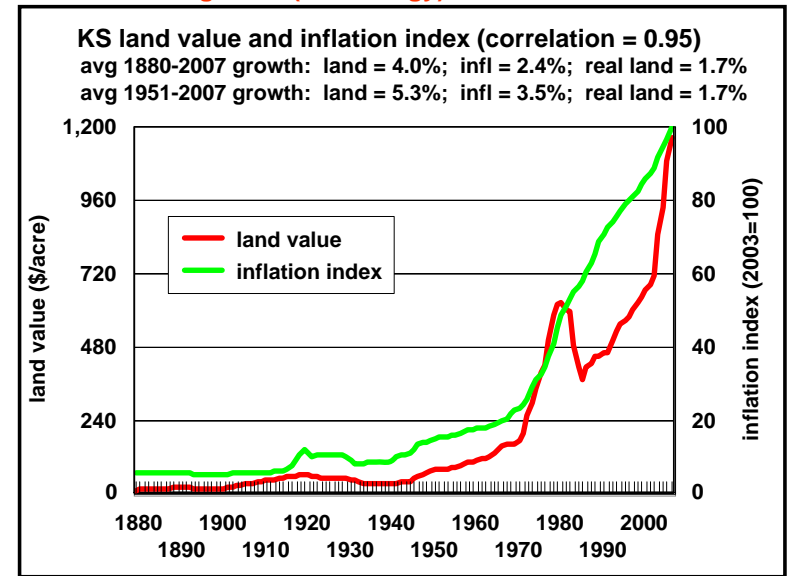


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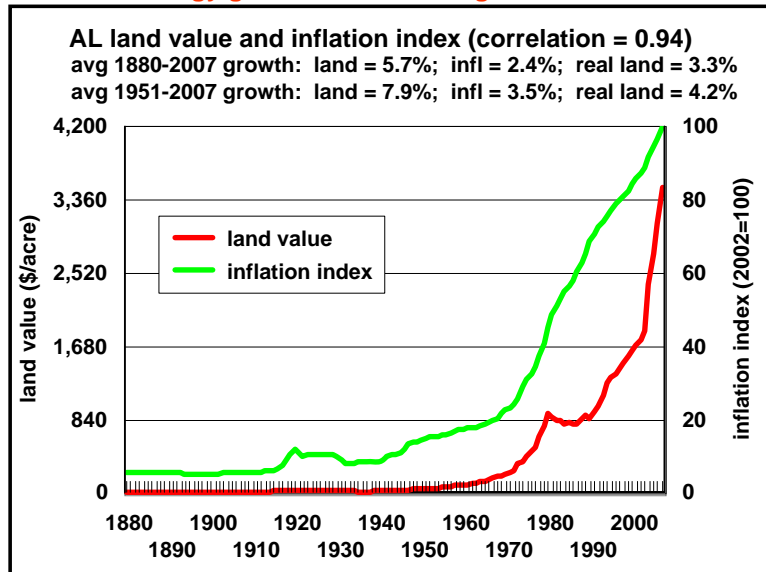
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Just add real growth (technology) to inflation?



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Was technology growth that much higher in AL than KS?



Obviously, something else is going on here . . . we'll come back to this later

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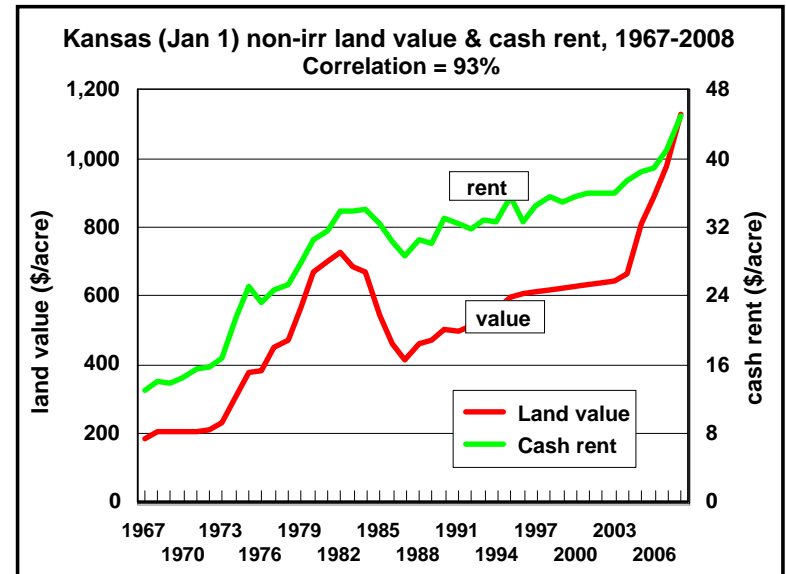
## Returns to land

- Capital gains (growth)
- Cash returns (rent)
- The two returns to land are similar to other investments such as the stock market (capital gains and dividends)

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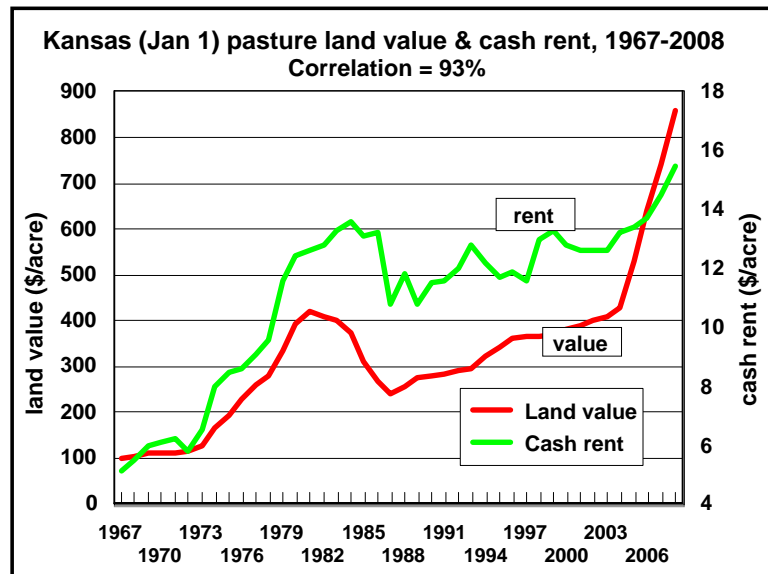
## Rent

- KFMA farms with > 100 crop acres (2004-2006 avg)
  - 89% of KFMA farms use rented crop land (range across six regions, 83%-94%)
  - 62% of crop acres farmed by KFMA members are rented (range across six regions, 53%-72%)
- For owner-operators rent is the “profit” assigned to land after all other opportunity costs are considered

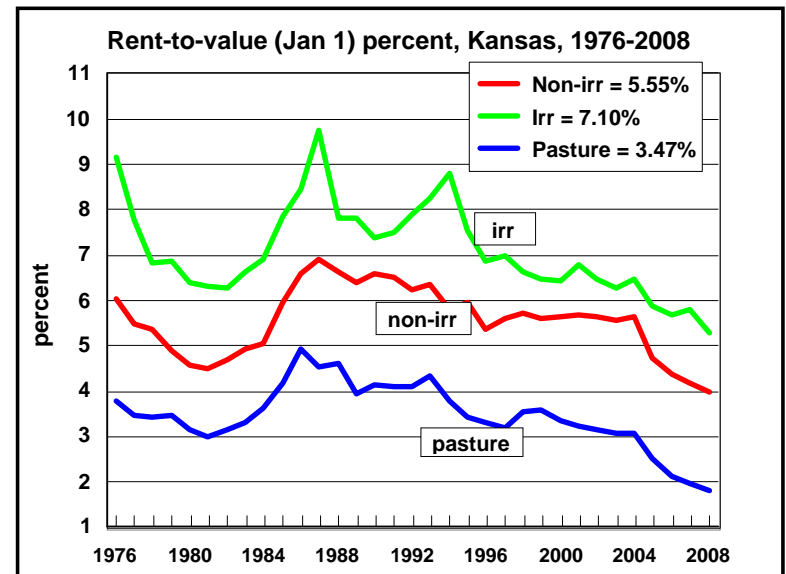


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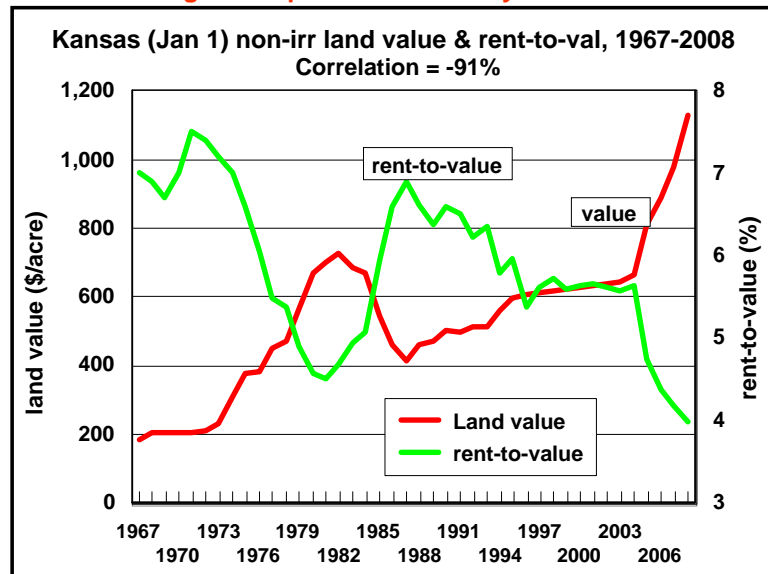
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Downtrend hints at something else going on . . .

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## Are we seeing a land price bubble today?



We'll come back to rent-to-value issues later . . .

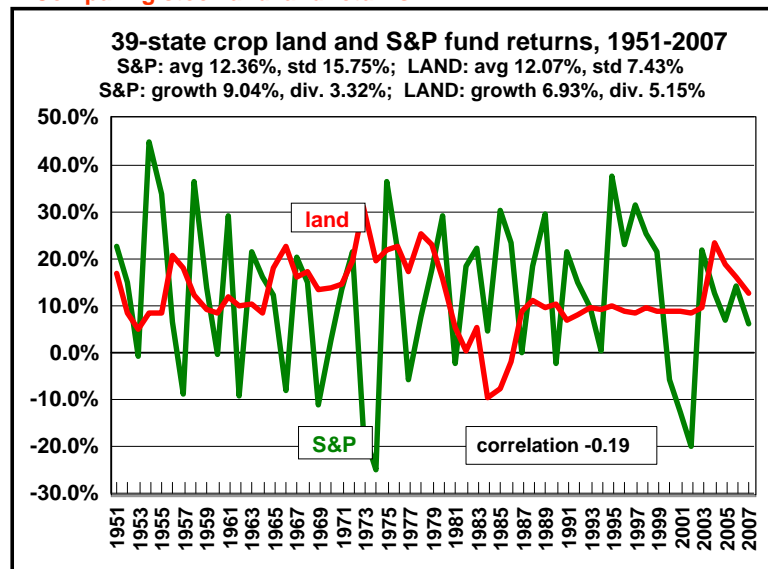
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## Returns to Land

- Land
  - Cash returns: rents or rent-equivalents on owned land
  - Non-cash returns: capital gains (growth)
- Stock market
  - Cash returns: dividends
  - Non-cash returns: capital gains (growth)
- Typically, neither land nor stock investments “cash flow”

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## Comparing stock and land returns . . .

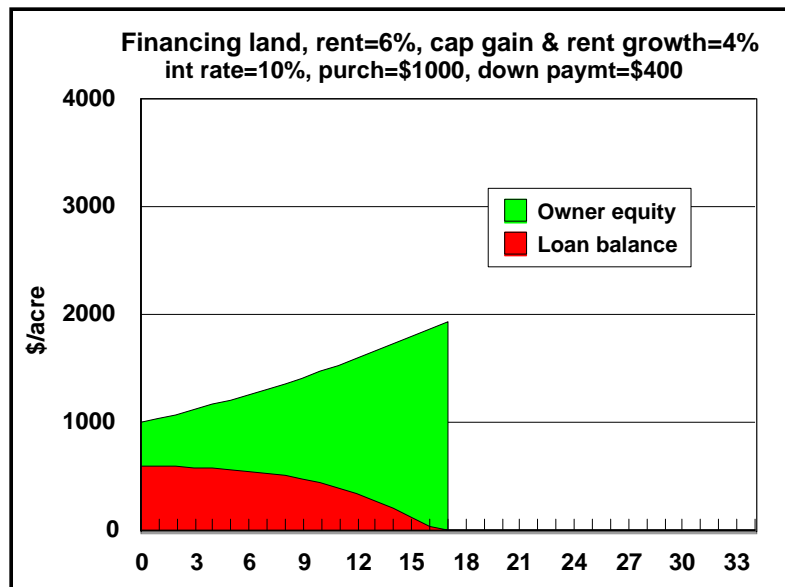


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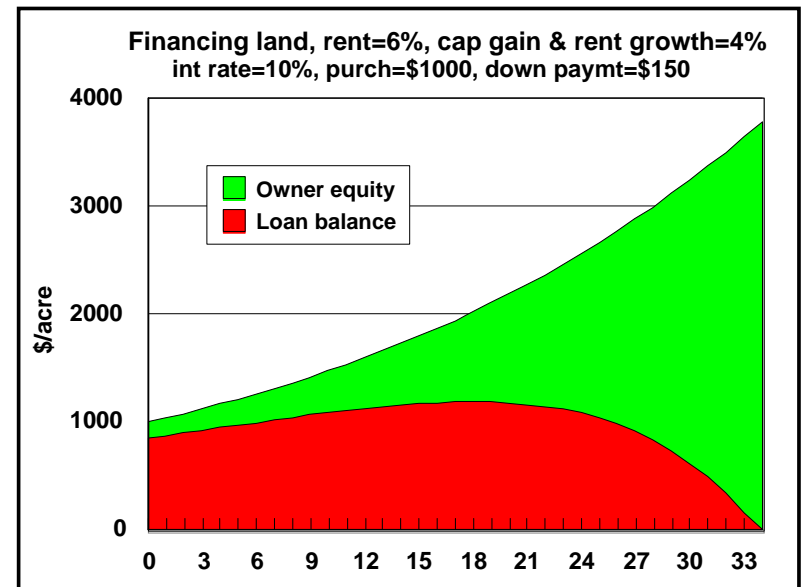
## Cash-flowing land

- Total return (profit) = rent + capital gain
- Cash flow is not the same as profitability
- Cash flowing a land purchase
  - Does rent cover a 100% loan? Almost never!
  - Does rent cover a 25% loan? Almost always!
- Land doesn't cash flow when purchased
  - i.e., rents don't cover loan payments
  - rents grow, loan payments don't
  - land eventually cash flows
- A simplistic view follows . . .

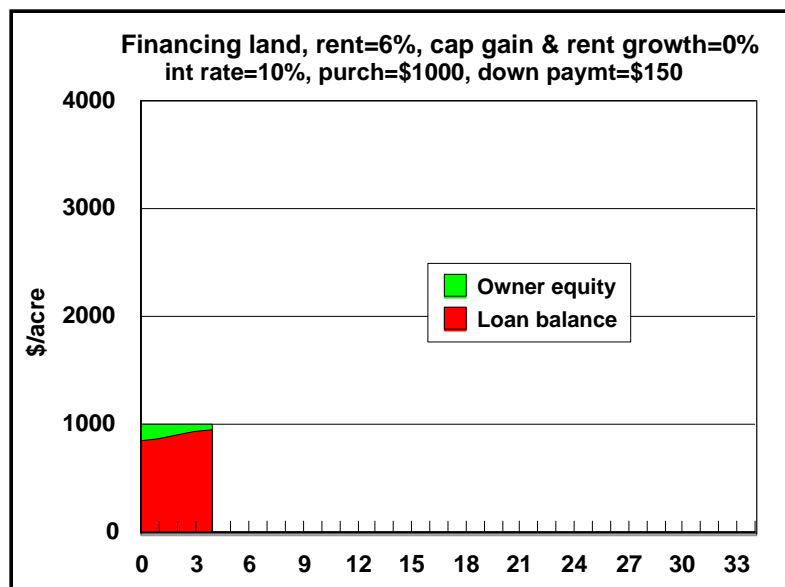
112



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### Preceding slides showed:

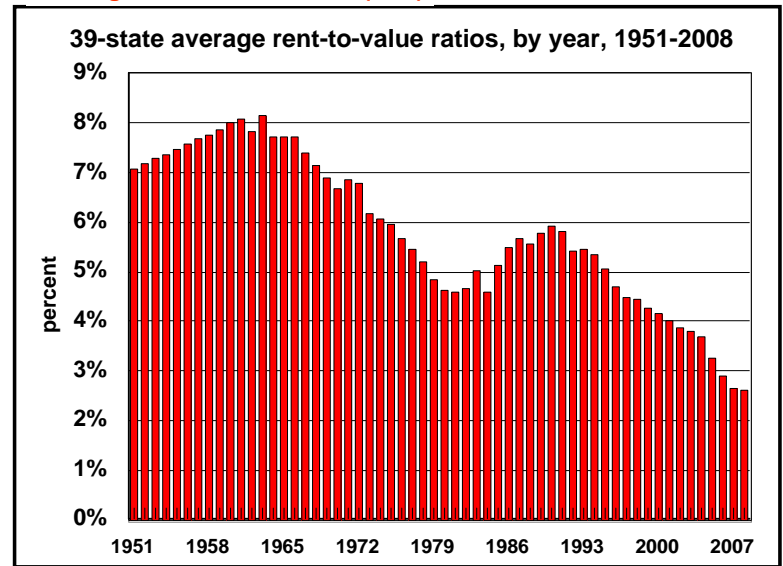
- Borrowing too much money AND being too optimistic on expected profit can be disastrous
  - Everybody knows this
- Seasoned farmer landowners often say:
  - “I never bought a piece I didn’t think was too high at the time, yet it always seemed to work out”
  - This one is a hard one for folks to understand
    - Reaction is “I just need to be optimistic enough”
    - Reaction should be “makes sense when I understand”

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A number of years back we began to incorporate non-agricultural aspects into agricultural land values

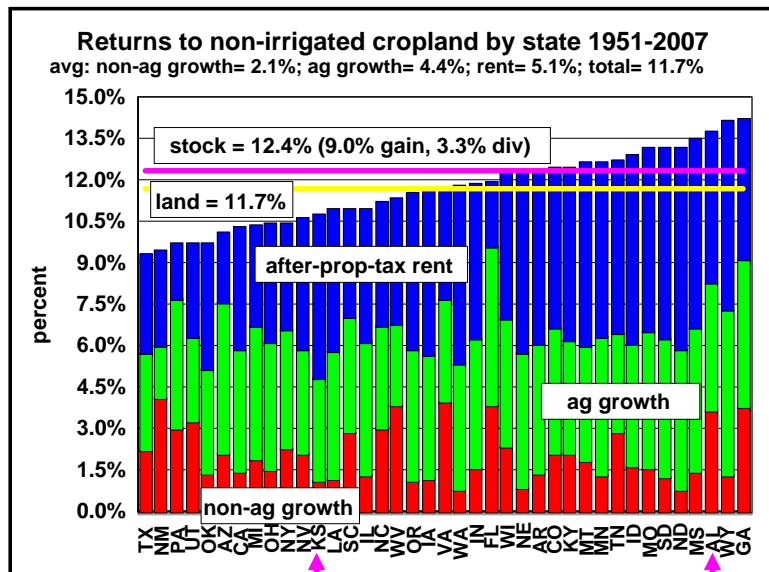


Coming back to rent-to-value (RTV)

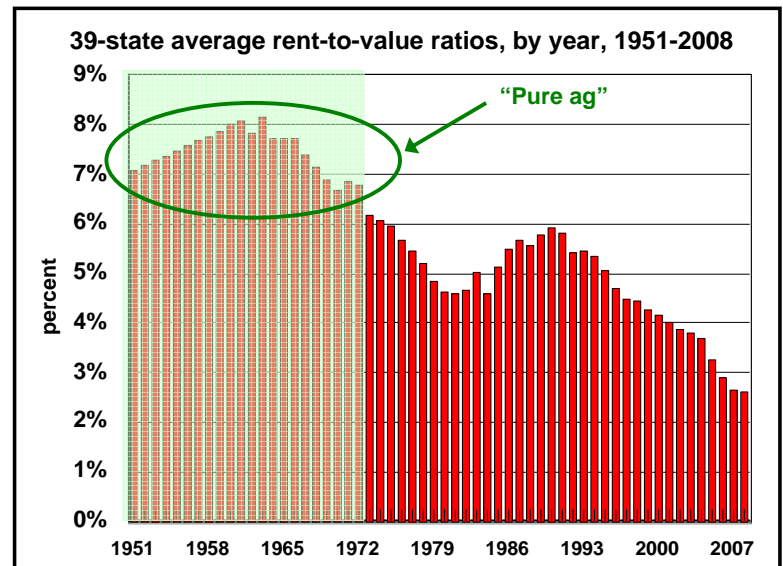


Is RTV really a reliable indicator of land price bubbles?

We separated land returns into various components



39 states ranked by total returns to land



## Agricultural Market Value of Agricultural Land

- Based on the idea of an ag cap rate
- Used average after-property-tax RTV 1951-72
  - Early on while ag still is dominant
  - Before wild inflation of the 1970's
- Alabama ag cap rate = 8.03%
- Kansas ag cap rate = 6.64%
- 39-state average cap rate = 6.57%

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## Agricultural Market Value of Agricultural Land using Alabama crop land as an example

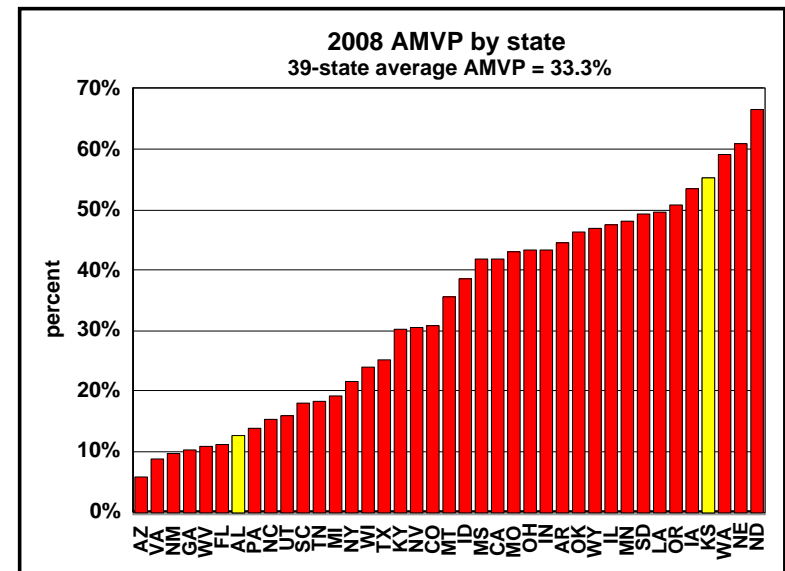
- Jan. 1, 2008 crop land value = \$3900 /acre
- Cash rent for 2008 = \$41.00 /acre
- 2008 property tax = \$1.38 /acre
- 2008 after-property-tax rent = \$39.62 /acre
- $\$39.62 / 0.0803 = \$493.40$  /acre
- $AMVP = \$493.40 / \$3900 = 0.1265 = 12.65\%$

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## Agricultural Market Value of Agricultural Land using KS non-irrigated cropland as an example

- Jan. 1, 2008 land value = \$1130 /acre
- Cash rent for 2008 = \$45.00 /acre
- 2008 property tax = \$3.58 /acre
- 2008 after-property-tax rent = \$41.42 /acre
- $\$41.42 / 0.0664 = \$623.80$  /acre
- $AMVP = \$623.80 / \$1130 = 0.552 = 55.2\%$   
(non-irr)

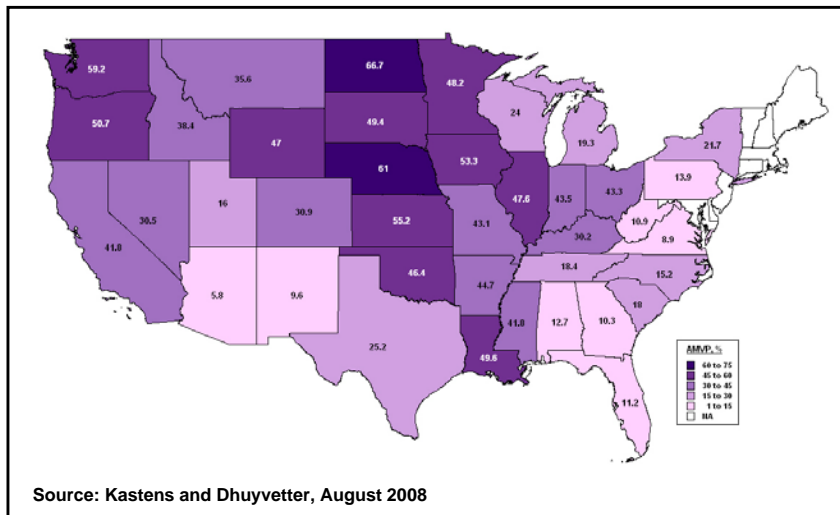
124



percent of land value that is due to agriculture

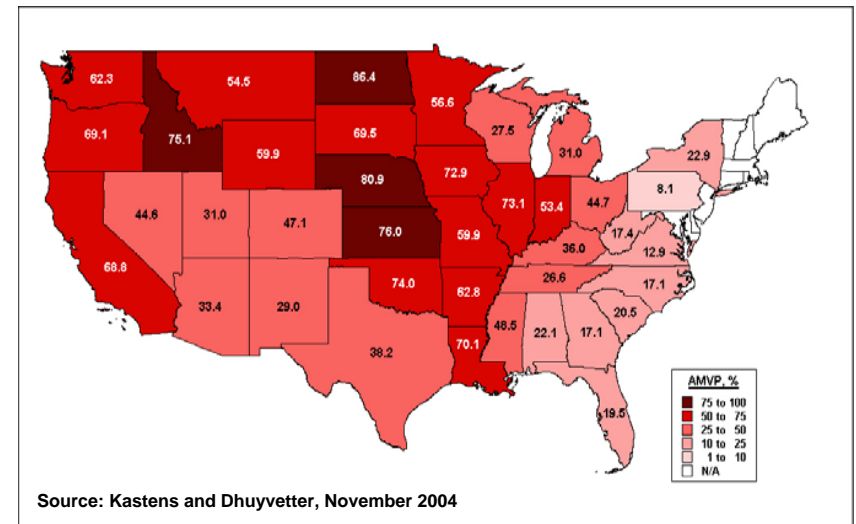
125

## Portion of Land Value Attributed to Agricultural (production and government payments)



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## Portion of Jan 1, 2004 Crop Land Value Attributed to Agricultural (production and government payments)



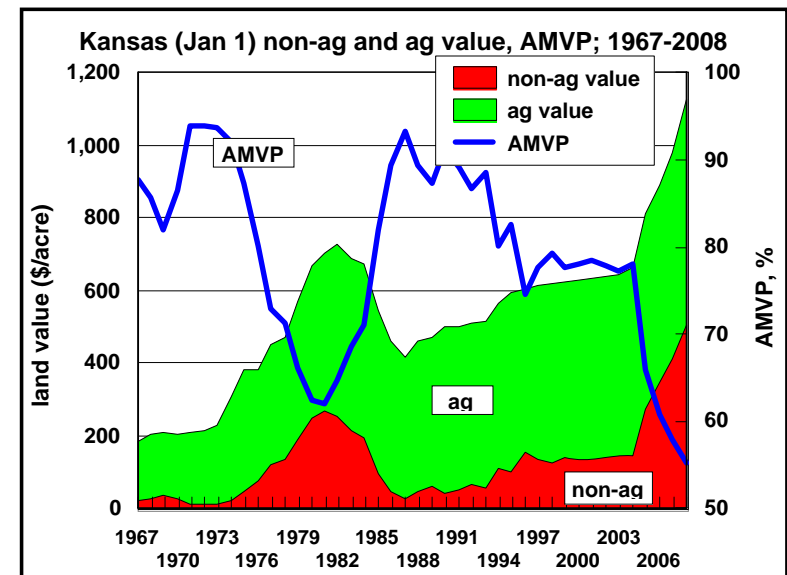
2004's map for comparison

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## Non-ag growth is:

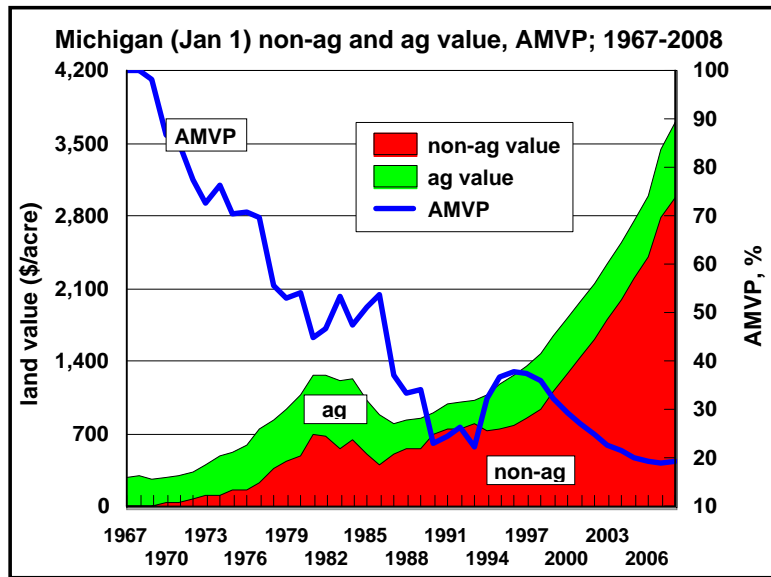
- True non-ag growth
  - Recreation, hunting, homesites, 1031 exchanges
  - Subject to the broader economic forces
    - Unemployment rate, taxation issues, competing investments
- Speculation
  - A portion of true non-ag growth is speculation on future trends about such things
  - Speculation among ag buyers (farmers and investors) about future ag trends
- Not easy to sort out the two!

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AMVP falling indicates increasing non-ag and perhaps speculative bubbling??

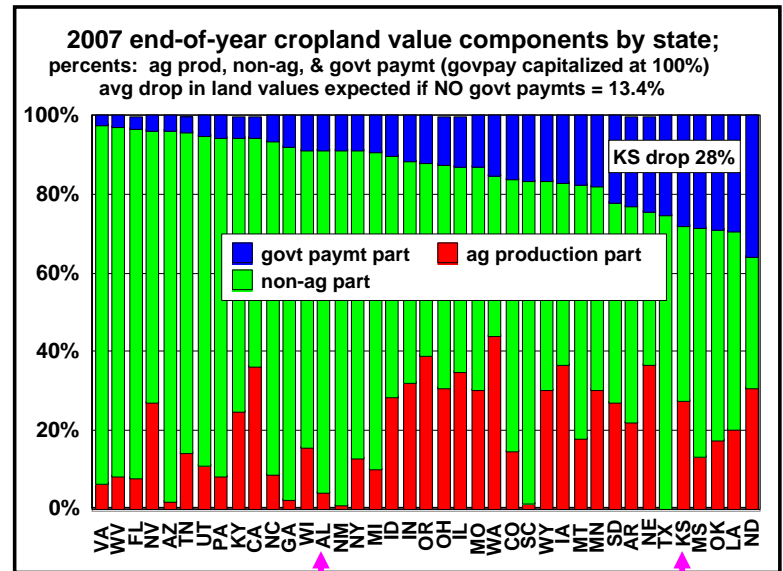
129



AMVP falling indicates increasing non-ag and perhaps speculative bubbling??

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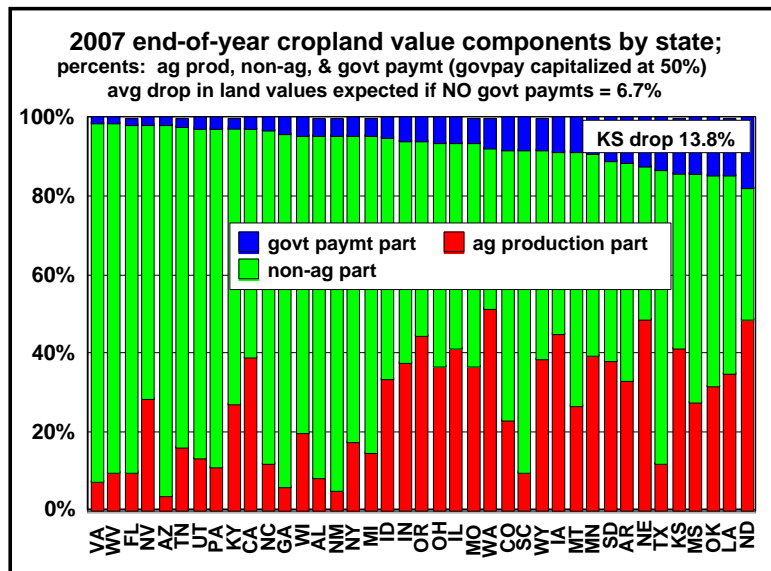
A sidebar: impact of Government Payments on Land Value



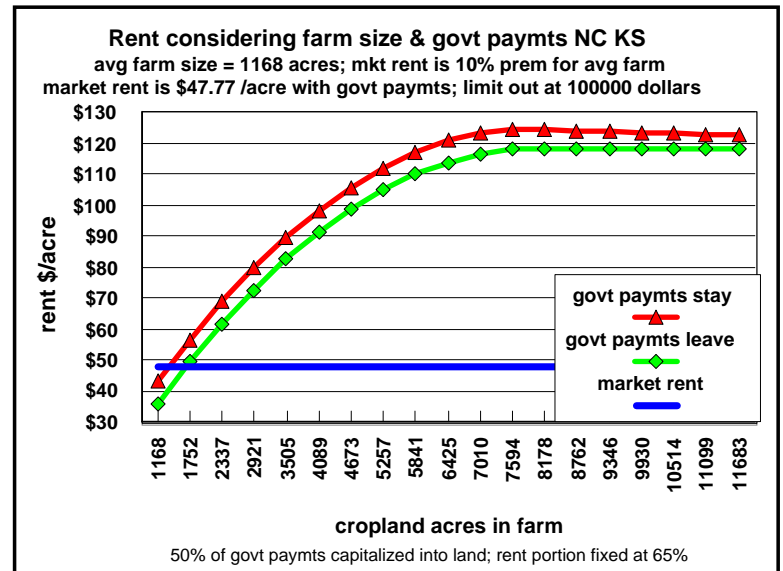
ranked by percent of land value that is due to government program payments

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If you pushed us, here's what we'd likely predict

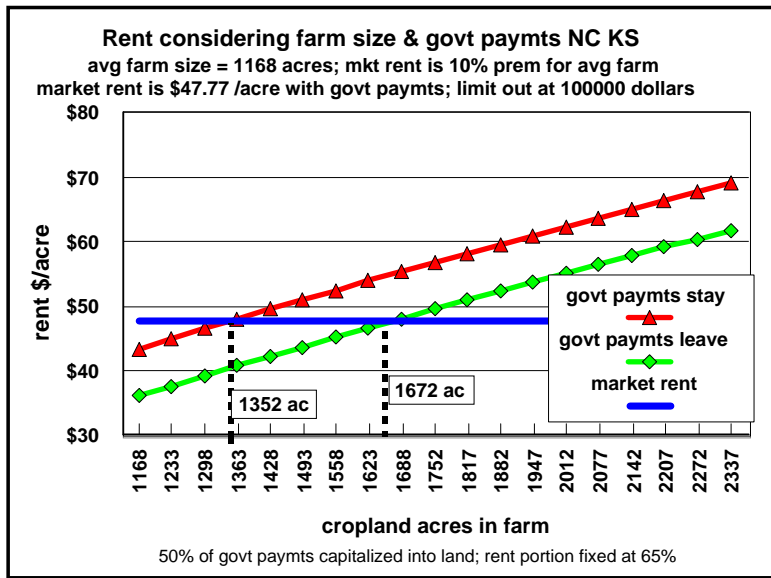


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Economies of size analysis for typical NC KS farm in 2007

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Economies of size analysis for typical NC KS farm in 2007

## Are you a macro or micro land investor?

- **Macro:**
  - Buy or sell land when you believe the “time” is right, i.e., a trend picker or market timer
  - Buy and sell at market; not much micro analysis
- **Micro:**
  - Decision to buy or sell based on farm business
    - Farm expansion/contraction, mgt ability, age, etc.
  - Buying or selling the right “tract,” i.e., good deals relative to the market
    - Differentiate rental rates across tracts considered
- **Most investors a micro-macro combination**
  - Good farm managers likely tend to be more micro
    - Think of gains to grain marketing vs. machinery mgt.

**KSU-Landbuy.xls spreadsheet for land investment decisions**

Inputs				Print report				Label (refers to notation in Valuing and Buying Farmland publication)										
KS	KS	KS	Average	State	Land class	Ac	Age	MV_0	PP	aR	Ptx	nR	T	l	gA	gNr	g	gNv
120	30	0	160	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
\$1,130	\$860	\$0	\$1,036	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
\$45.00	\$15.50	\$0.00	\$37.14	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
\$3.96	\$3.01	\$0.00	\$3.62	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
\$0.00	\$0.00	\$0.00	\$0.00	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
30	30	30	30	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
43%	43%	43%	43%	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
15%	15%	15%	15%	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
7.00%	7.00%	7.00%	7.00%	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
40.0%	40.0%	40.0%	40%	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
3.01%	2.75%	0.00%	2.99%	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
0.00%	0.00%	0.00%	n/a	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
4.00%	4.00%	0.00%	4.00%	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
0.96%	1.22%	0.00%	0.98%	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

**Calculated Outputs**

3.99%	3.99%	3.99%	3.99%	l/(1-l)	After-tax interest rate on land loans (discount rate)
\$23.40	\$7.12	\$0.00	\$19.10	---	After-tax rent, \$/acre (now property taxes are removed as well)
\$606.16	\$178.30	\$0.00	\$495.08	PVRA	Discounted value of all future after-tax ag rents
\$0.00	\$0.00	\$0.00	\$0.00	PVRN	Discounted value of all future after-tax non-ag rents
\$3,685.04	\$2,789.32	\$0.00	\$3,358.94	---	Projected ag growth
\$2,750.81	\$1,940.68	\$0.00	\$2,506.06	---	Projected non-ag growth
\$1,015.55	\$773.00	\$0.00	\$930.85	PVSA	Discounted value of all future ag market
\$775.40	\$549.95	\$0.00	\$706.70	PVSA	Discounted value of all future non-ag market
\$1,623.79	\$951.30	\$0.00	\$1,425.94	PVLA	Present value less market price
85%	77%	n/a	84%	AMVP	Ag market
85%	22%	n/a	---	AMVP	Ag market
\$493.79	\$91.30	\$0.00	\$390.31	---	Present value less market price
\$493.79	\$91.30	\$0.00	\$390.31	---	Present value less purchase price
9.82%	7.68%	n/a	9.43%	---	Approximate pre-tax rate of return on assets
11.70%	8.14%	n/a	11.05%	---	Approximate pre-tax rate of return on equity

**We provide quite a bit of background on the inputs you need to inject to make an informed land ownership decision.**

**More and more we tend to focus on ROA and ROE, especially for making good micro land purchases**

## Rapid Growth in Crop Farms



## Rapid Growth

- If we are right . . .
  - Some of you may actively seek rapid growth
  - Some of you will be offered opportunities for rapid growth that you'll have to consider
  - All will benefit from an understanding of rapid growth, to aid decisions no matter what you decide to do
  - Biggest issue is learning to think differently!

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## Rapid Growth

- Be absolutely sure that someone is in charge of keeping track of the economics and allocates the necessary time to do so!
- Someone has to be sure to keep electronics and computers working.
- If you're going to expand rapidly, hire extra people whether it looks like they will pay or not. Initially, don't think like "but what will I have this guy do in the off season?"

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## Rapid Growth

- Do all major planning in the off season
  - On farm research layout and analyses
  - Hybrid selection
  - Machinery decisions
  - Rental arrangement negotiations
    - Time to understand fields/farms interested in
    - Field size, shape, and location matters
  - Financial planning and loan applications
  - Don't "go to Florida," but rather use this time for detailed in-depth analyses and planning
  - Do the planning WITH the relevant employees

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## Rapid Growth – Data

- Automate data collection (less hands-on)
  - Precision ag
  - Monitor from a distance (grain bins, irrigation)
  - Effective software or spreadsheets?
- Automate controllers, e.g., for fertilizer and seeding (precision ag)
  - Requires less time communicating this in-season
- We're not particularly optimistic about integrating economic and agronomic data in software – maybe just hire more office help

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## Rapid Growth – Logistics

- Progression of field operations?
- Big machines – a lot of time not running
  - Think of moving from field to field
  - Do pickups have hitches?
- Maps for all involved?
  - Employees, custom operators, etc.
- In-field efficiency
  - Row and section shutoffs?
  - Field size and shape matters
    - Winter analyses will guide your decisions here

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## Rapid Growth – Communication

- Embrace the new ways
  - email, cell phones, text messaging, web
  - Maybe business band radios even though old?
  - Wireless internet on the tractor?
- Email each other on the farm
  - Saves repeating the story over and over when folks cannot always be together
  - Eliminates errors
- Email business associates for same reasons
- Have other growing farms in your email list!

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## Rapid Growth – Investors & Landlords

- Newsletters?
- Website?
  - Password protected perhaps (for specific folks)
  - Lots of pictures
- Stay flexible
  - Many landlords will better appreciate a hardcopy letter or a personal visit (know your landlord!)

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## Rapid Growth – Keeping up

- Crop production absolutely cannot suffer!
  - Simultaneously do production tasks
  - If you get behind, hire it done, but be sure possible arrangements have been made
- Do not pinch pennies and over-analyze in-season
  - Trust that the few bad seat-of-the-pants instinctual decisions made to keep things moving won't negate the careful planning done in the off-season
    - Applies also to opportunities that arise then

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## Rapid Growth – How Get There?

- **Low tech**
  - Hire many low-paid immigrants
  - Typical of livestock, where jobs clearly defined
  - Typical of past crop farms with simple machines
- **High tech**
  - Hire fewer, higher-paid, more manager types
  - Partnering relationships with high-paid folks
  - More typical of today's crop farms

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## Rapid Growth – How Get There?

- Higher-than market rents
- Excellent reporting to banks, investors, employees, and landlords
- Pay high wages (think of perks and partnering)
- **Social issues**
  - Emphasize that employees are good citizens and often better off than before
  - Talk about acres or dollars per person involved
    - Often you're all just employees
- Support your community like businesses in town
- Only go there if you love people!

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## Summary

- Consolidation is here to stay: embrace it!
- Profits go to technologies' early adopters
- Be careful about value-added investment
  - Maybe do the reverse
- Be ready for more paperwork and computers
- Acquire specialized skills in-house or with consultants
- Develop better people skills – they'll be needed

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## Summary

- Farm size and growth especially important
- Traditional one-family mid-sized farms:
  - A number likely will remain as one-generation farms
  - A large number will "become" small part-time farms
  - A number of operators will select another career
  - A few operators will become employees of large farms
  - A few will become large commercial farms
- Successful farms of the future will
  - Have increased equity requirements
  - Will not view debt as something to reduce
  - Think of labor as an investment in human capital
  - Will target growth rather than an optimal size
  - Will become corporate thinkers
- About what *will* be not what *should* be

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## Summary

- Wealth and Time/Skills
- Know your comparative advantage
- It's all about happiness – enjoy what you do!

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## Questions ???



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