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COLLEGE OF FOOD, AGRICULTURAL,
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Hardin County Extension News Release

For Further Information Contact:

Mark Badertscher

Agriculture and Natural Resources Extension Educator

Phone – 419-674-2297

E-Mail – badertscher.4@osu.edu

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Farm Profitability

By Ed Lentz – OSU Extension, Hancock County

Grain farmers will have a challenging year in 2016 according to most forecasts. A large 2015 crop and weak world demand for grain has diminished the chance of significant increases in grain prices for the short term.

Farmers will try to reduce costs, but in many situations not enough reduction to offset low grain prices. Thus profit margins may be tight in the coming year.

Chris Bruynis of the Ohio State University Ag Managers Team has offered suggestions that farmers may want to consider for a year of lower grain prices and projected lower profit margins. I have adapted some of these suggestions in the following discussion:

Complete a financial analysis. Knowing where the business stands financially will be critical in developing a plan to survive this period of low margins. This will provide insight into how drastic the measures need to be to weather the storm.

Good financial capacity will allow farm families to borrow new money, restructure term debt, or even make interest only payments on some loans.

Lower the cost of production. Items such as cash rent, input costs, operating costs, and equipment depreciation can greatly affect this cost. Strategies to lower input costs can include: setting realistic yield goals, selecting lower priced inputs, and making sure the input generates more income than its cost.

Improve grain marketing skills. Grain marketing strategies vary somewhat depending on on-farm storage, crop insurance participation, and total bushels available for sale. Farms with 20,000 bushels to sell have fewer pricing opportunities compared to 200,000 bushel farms, especially since many contracts are made on 5,000 bushel increments.

Regardless of the farm constraints, it is critical to set price targets that are realistic and based on the farm's true cost of production. Also the ability to use available marketing tools such as option contracts, hedge-to-arrive contracts, etc. and to understand the risk exposure created or protected by each will be important.

Increase profitable enterprises. Most farmers are creatures of habit and do not easily abandon their crop rotations or shift to new crops. Farmers will need to closely evaluate the possibility of increasing acres of one crop over another in 2016.

Reduce unproductive assets. Growing crops on marginal soils or rented ground with extremely high rental rates may be good candidates for removal from the business portfolio. Farmers need to weigh the loss from farming these properties compared to the fixed costs that will be spread over the remaining acres to determine if this is a good decision.

Other ideas could include selling unused and underutilized equipment on the farm. However, be careful to examine the tax liability of the sale of these assets so that it does not consume the income generated from the sale.

Add additional revenue streams. Additional revenue streams can come from a few sources, but the most common is the addition of off-farm employment for one or more of the adult family members. This lowers the need for the farm to generate all of the family living expenses and health care costs.

Other ideas would be the addition of other agricultural production enterprises or agritourism/agritainment enterprises. Make sure you have studied these options thoroughly to predict the positive cash inflow they may generate.

Talk to your lender. Lenders want the enterprise to succeed and will work toward that end. More options will be available the earlier the farmer discusses the situation with their lender.

Cooperation among neighbors. Years ago, farmers understood that by pooling resources they could generate increased profits. This was evident by the number of supply and marketing cooperatives that once dotted the countryside.

Is it time to create farming arrangements that bulk purchase inputs, own equipment, produce greater marketing opportunities, etc to maximize income? What about each farmer specializing in a farming practice such as planting, spraying, harvesting and working together to capitalize on the specialized strength of each other?

Work toward full employment. This is not to suggest that grain farmers are not fully employed. However, there are plenty of examples where farmers have added enterprises to their business portfolio to utilize their equipment and hired labor more fully.

Examples include excavating, construction, painting, livestock, machine shop, and custom hire. There is even an example of a farmer that is a Big Ten basketball referee during the winter when row crop harvest is finished.

Farmers have been through these tough times before. Grain crop farmers experienced a similar situation in the early 1980's when profit margins became tight after a very profitable period in the late 1970's.

Currently, the nation's farm balance sheet is in much better shape relative to 1980, but that does not relieve the responsibility of operators in making management decisions necessary to keep it there.