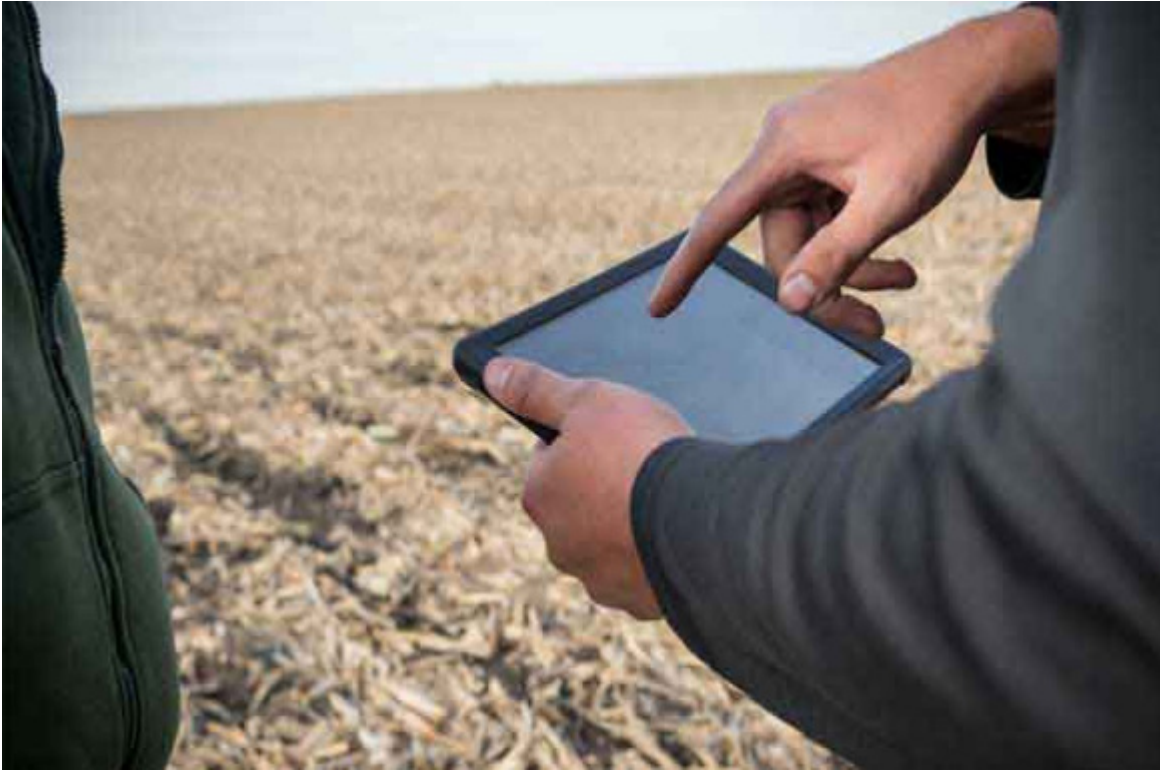


You've Asked & We've Listened | New Farm Advisory Program

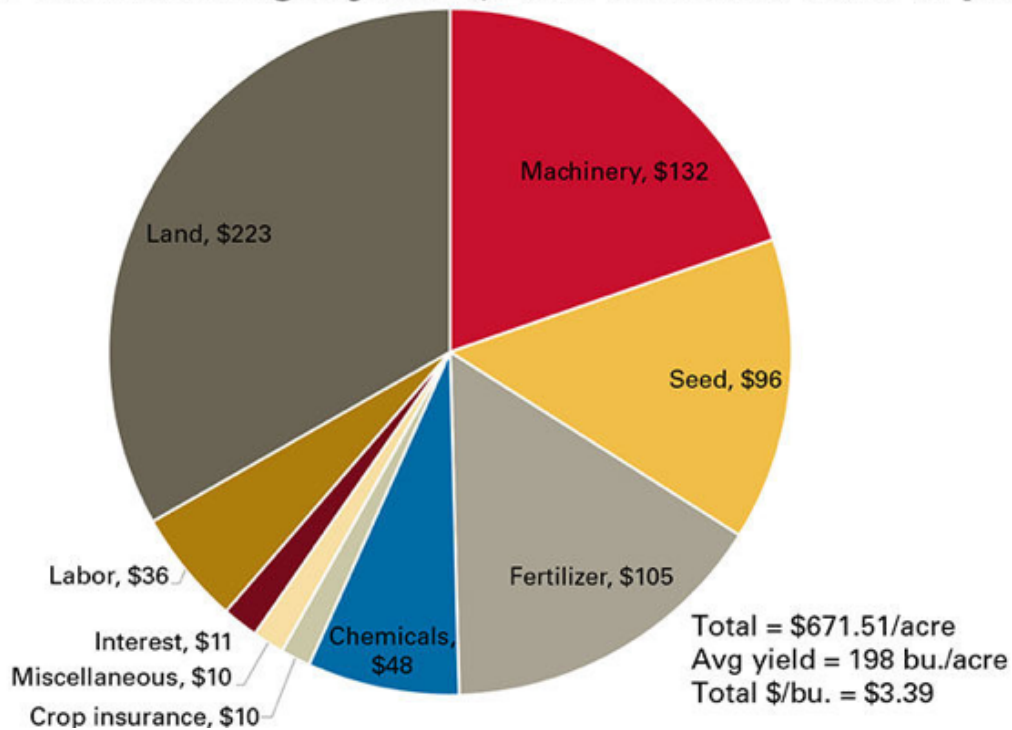


By Mike Downey, *Land, Lease & Farm Succession Consultant*

The most noticeable difference between the top 20% of high income producers and the bottom 20% of low income producers is not yields, not marketing success, but rather, how well they manage the costs in their farm operation. This is according to a study of over 1,600 farms in the Center for Farm Financial Management FINBIN system, one of the largest sources of farm financial and production benchmark information in the world.

Relatively speaking, the cost to grow an acre of corn and soybeans has not changed dramatically over the last seven years compared to the respective drop in commodity prices since 2012 after hitting their all time highs. The pie chart below shows the largest portion of costs for most producers represent land costs, machinery, and crop input costs.

Figure 2. Corn following soybeans, 2019 estimated costs of production



Source: Iowa State University Cost of Production Worksheet

FARM ADVISORY PROGRAM

Over the last couple years we've had more producers ask us to review how their farm operation stacks up versus others in the industry and help identify potential areas for improvement. We have formalized this process into a new Farm Advisory Program to help producers manage the costs in their operation and operate more profitably. Our team brings 80 years of hands-on experience from production agriculture and the financial consulting, farm leasing, and farm transition areas of expertise.

This program may be a one-time farm review, a review every 3 to 5 years, or on-going consulting program if an operation desires help from the financial side of the operation on an annual basis.

We offer a flat fee ranging from \$1,000 to \$5,000 depending on the size and complexity of the operation. This fee can be paid

by the producer, a financial institution, or both can share in the cost. Dr. David Kohl, a well respected farm economist, has been quoted in saying more and more lenders are considering a farm's "management factor" in making lending decisions.

WHERE TO CUT COSTS

Most operations have already refinanced debt to take advantage of historically low interest rates. Therefore, we believe the next opportunity is for producers to take a closer look at their land costs, machinery, and other costs affecting the farm operation.

Land costs such as land rents will no doubt receive attention since they represent the largest cost for many producers. This is one of the reasons we developed our leasing program to help landowners and producers with these conversations and we've had proven success bringing an educational piece to the table as an independent 3rd party. Our leasing program is also on a flat fee basis, and there is no cost for us to have an initial meeting with a landowner and producer.

We believe there is also great opportunity for operations in understanding their machinery costs more than on not just a dollar per acre basis, but also a dollar per bushel and even a cost per pass basis. Machinery costs represent the second largest line item expense for many operations so we believe we can provide more value to producers than simply using an arbitrary cost per acre that may not be representative of the actual machinery costs for their operation.

A LOOK AT THE BIG PICTURE

Our Farm Advisory Program is more encompassing than just a focus on costs however, as we will also review other phases of the farm operation from the business structure, profit analysis of

all enterprises, a review of the succession plan, and identify potential threats and opportunities for the farm business. Our on-going consulting program will include analyzing breakeven costs on an enterprise basis and populating them into an annual decision making tool. We will also assist producers in developing a grain marketing plan, and have an annual farm review including end of season landlord and lender reports.

If you have interest in learning more about this program, please send us an email and just like with our other programs, there is no cost or obligation for our first fact gathering meeting. Our mission at Next Gen Ag is to be the strongest possible advocate for you and your family farm.

This article was written by Mike Downey, co-owner of Next Generation Ag Advocates www.nextgenag.us. The team at Next Gen Ag brings 80 years of hands-on experience from Production Agriculture and the financial consulting, farm leasing, and farm transition areas of expertise. Mike can be reached at downey@farmestate.com.