

## Becoming a “Best in Class” Farm

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Corn Belt agriculture is in the midst of transitioning from one of the most profitable periods on record to what could be an extended period of tight margins for most corn and soybean operations. Now that the 2015 planting season is drawing to a close, you should take time to reevaluate your farming operation and consider how you can make sure your farm is strategically positioned to be a “best in class” operation in the years ahead. Doing so will help ensure that your farm will thrive, not just survive, in an era of tight operating margins.

When operating margins tighten, people often think about reducing costs. And it’s true that reducing costs is important, but being “best in class” is about more than just reducing costs. If you really want to make your farm best in class, there are several key elements for you to consider: 1) Intensive cost control; 2) Margin management and 3) Using the best science. Let’s look at each of these individually and think about how you can apply these key principles to your farm.

### Intensive Cost Control

Every farm manager knows that controlling costs is important, but how you measure costs is very important and, in fact, will help ensure that you really are a low-cost producer. Unfortunately, in agriculture we often measure costs incorrectly. When discussing crop production costs, how many times have you heard someone reference “cost per acre”? It’s a very common way to discuss costs in agriculture. But what does use of the “cost per acre” metric fail to address when making decisions? It fails to measure the effect a particular crop input, such as fertilizer, seed, or herbicide, has on production. If production changes as the result of input usage, it takes careful analysis to determine whether the additional input raised or lowered our production costs. By far the best way to do this is to make sure that we always measure costs per bushel of output. Doing so ensures that we are including both the cost of the input and the input’s yield impact. To intensively control our costs, it’s absolutely critical that we measure costs in per unit of output terms. In crop agriculture, that means cost per bushel produced and in animal agriculture it means measuring cost per hundredweight of livestock or poultry sold. If you’re wondering what yield to use when computing costs per bushel, consider using a trend adjusted yield based upon your crop insurance records.

### Managing Margins

In an era of tight operating margins, it’s important that we monitor and take steps to proactively manage margins. But first it’s important to define what we mean when we use the term “margins”. There is more than one type of margin; we want to focus on two commonly used margin measures.

First, your farm's profit margin is your revenue over and above all costs, including your fixed costs of operation. The second type of margin is one we refer to as the "contribution margin". The contribution margin is revenue minus operating costs. The name contribution margin originated because revenues above operating costs can be used to make a "contribution" to cover fixed costs.

The first step in margin management is to know your production costs so you can accurately calculate and project your margins. If you've calculated your production costs per unit of output (per bushel or per hundredweight), as we outlined previously, estimating your margins is straightforward. You can simply compare your production costs with current cash market prices, futures market prices adjusted for local basis, or cash forward contract prices. Margin management is about locking in positive margins, when opportunities to do so are available. And in the current operating environment, it's important to recognize that it will be difficult for many farms to lock in positive profit margins. Your focus should be to strive for locking in positive contribution margins and, effectively, make contributions towards your fixed operating costs.

### **Using the Best Science**

We are fortunate in agriculture to have a plethora of research to draw upon when making production decisions. Land grant universities have been conducting independent research for decades on a multitude of factors that affect crop yields. High quality, replicated research results are available to provide guidance with respect to weed control strategies, the impact of nitrogen, phosphorous, potassium and various micronutrients on crop yield, seed technology and seeding rates, the use of fungicides, and a number of other crop production decisions. More recently, improved technology now makes it possible to conduct field scale on-farm research on your own farm that can be used to augment research conducted in more controlled environments so we can see more clearly the yield response(s) to usage of various inputs. The question to ask yourself is, are you really availing yourself of this rich body of scientific knowledge when making crop management decisions?

Using the best science to make decisions takes some time, but it's time well spent. Some straightforward ways to do this are to routinely review information published regarding production research. One easy way to keep up with a great deal of agronomic production research and recommendations is to visit "The Chat 'n Chew Café" web site ([www.agry.purdue.edu/ext/corn/café](http://www.agry.purdue.edu/ext/corn/café)), hosted by Purdue's Agronomy department. This site serves as a clearinghouse for newsletters and research published throughout the U.S. that's relevant to Corn Belt producers. In recent years, strategies to effectively manage resistant weed populations have become very important. Keeping up with the large number of trade names, their active ingredient lists, modes of action, and effectiveness in controlling various weed species can be a challenge. One way to stay on top of this array of information is to check the Purdue Weed Science web site ([www.ag.purdue.edu/btny/weedscience](http://www.ag.purdue.edu/btny/weedscience)) for new information. Other ways to make sure you're using the best science include participating in professional development programs such as winter crop schools, land grant university field days, or attending Certified Crop Advisor programs. The pace of change in agriculture is very rapid and making sure you're

using the best science when making your input purchasing decisions and in-field management decisions is one way to ensure that your farm really is best in class.

### **Getting Started**

As you review your 2015 management decisions and start making plans for 2016, examine the check list below to help you identify key areas that could help you improve next year's bottom line. Although the list is not all encompassing, we hope it will stimulate you to think about one or more changes you could make on your operation.

1. Seed selection: Are you paying for seed traits you don't need?
2. Fungicide choices: Are you using field scouting to make your fungicide application decisions?
3. Could you reduce the number of field operations/passes across the field?
4. Could you benefit from split applications of nitrogen fertilizer?
5. Are your tillage/planting/harvesting operations being completed in a timely enough manner to avoid yield losses?
6. Are your seeding rate decisions based on research results?
7. Are you basing your crop herbicide and pesticide choices on field scouting reports?
8. Are you running soil tests routinely and using them to make P and K application decisions?
9. Have you discussed reducing cash rental rates with landlords and/or discussed the possibility of adopting a flex rent schedule?
10. Have you considered a machinery sharing or leasing arrangement to reduce costs?

### **Are You Ready to Be Best In Class?**

Becoming a best in class farm is really about your mindset. Best in class farms are constantly striving for better, more effective ways of doing things. Managers of best in class farms enjoy seeking out new information, challenging old ways of doing things with new ideas, keeping good records and combining their farm's information with that gathered from other sources to make decisions. Now is the time to prepare for next year by making sure your farm will be best in class in 2016.