

Characteristics of Profitable Farms: Is Your Farm One of Them?

Gary Schnitkey and Dale Lattz
Department of Agricultural and Consumer Economics
University of Illinois

Executive Summary

- This session compares the characteristics of the most profitable farms to average farms.
- Farms enrolled in Illinois Farm Business Farm Management (FBFM) that received the majority of their income from grain operations were divided into groups based on management returns from 1998 through 2002. More profitable farms tend to have higher yields, own less farmland, share-rent more farmland, and have lower costs than less profitable farms. Most of the difference in profits comes from the cost side.
- Major cost categories were ranked from high to low based on the difference in those categories across farms. The category with the largest difference is land. The land category is followed by labor, power, other, crop, and building categories.
- A survey of FBFM field staff was conducted. Field staff were asked to rank their farmer clients by various management indicators. Survey results do not indicate large difference across farms in different profit categories. More profitable farms tended to have higher ranks in personnel management and financial planning than less profitable farms. No major differences in technology use are found across profit categories.
- Costs and returns were compared across different sized farms. Per acres costs exhibit no trend for size categories above 1,200 acres. There is no evidence that larger farms can purchase inputs more economically than smaller farms.
- Budgets for corn and soybeans are developed for "low cost" farms and for "average" farms. Low cost farms can bid significantly more for cash rents and still generate a profit when compared to average farms.
- A prototype high-profit 2,500 acres grain farm was developed. This farm has one combine, two tractors, one planter, and limited tillage equipment. The farm has one full-time laborer and uses some part-time seasonal labor. The farm does not have on-farm storage and usually sells all crops at harvest. The farm attempts to control land through share-rental arrangements and does not pay aggressive amounts on cash rents.
- FBFM and *FAST* resources for comparing costs are illustrated.