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## What Makes an Efficient Farm?

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# CORNHUSKER ECONOMICS

## What Makes an Efficient Farm?

Market Report	Yr Ago	4 Wks Ago	8/4/06
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight . . . . .	\$82.31	\$83.22	\$81.47
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb . . . . .	133.09	144.05	134.02
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb . . . . .	116.30	121.28	116.49
Choice Boxed Beef, 600-750 lb. Carcass . . . . .	128.30	153.43	140.62
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	68.44	69.05	68.13
Feeder Pigs, National Direct 45 lbs, FOB . . . . .	48.21	50.73	50.09
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean . . . . .	72.66	77.30	72.27
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest . . . . .	90.00	*	94.90
National Carcass Lamb Cutout, FOB . . . . .	251.27	230.26	226.13
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Imperial, bu . . . . .	2.98	4.67	4.41
Corn, No. 2, Yellow Omaha, bu . . . . .	1.74	2.20	2.17
Soybeans, No. 1, Yellow Omaha, bu . . . . .	6.35	5.66	5.27
Grain Sorghum, No. 2, Yellow Columbus, cwt . . . . .	2.96	3.41	3.30
Oats, No. 2, Heavy Minneapolis, MN, bu . . . . .	1.82	2.24	2.12
<b><u>Hay</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton . . . . .	117.50	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton . . . . .	37.50	87.50	87.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton . . . . .	52.50	82.50	82.50
* No market.			

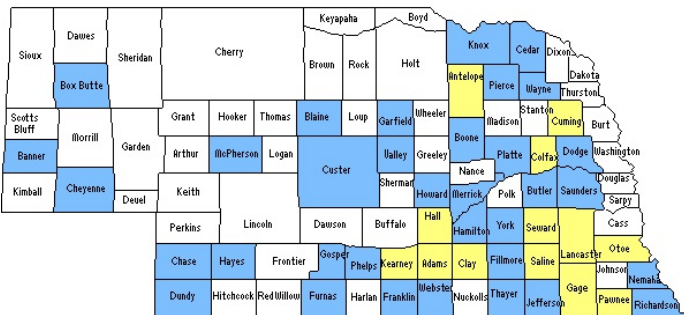
It seems that answers to questions often bring more questions. It is certainly true for both my four-year-old daughter and our study of efficient farms. Natalie's favorite question is "Why?" and our studies seem to ask "How can they do that?"

Six years ago, we asked the question "Can a Small or Mid-Sized Farm Survive in Today's Farm Economy?" To answer the question, we selected ten farms with gross incomes less than \$300,000 that routinely generated high net farm incomes. We followed these same ten farms for several years and discovered that from a whole farm basis, there were no major differences, but it seemed all the little things added up to their success year after year. These farms left us with the questions, "What are they doing differently?," "How are they doing it?," and "What makes them consistently earn net incomes higher than the average?"

To earn higher net incomes from less gross income we knew they were more efficient and watched their dollars closer. We assumed it was more of a 'nickel & dime' approach than an earth shattering discovery they weren't sharing with everyone else. But to really understand why and how, we had to modify our study and look deeper than just net income and find their expenses on a per acre basis. In 2004, we expanded the group to include those farms whose net income ratio has been over 20 percent for several years. In 2005 we were able to generate per acre costs and have now made some headway in answering those questions.

We compared the really good data we have on both corn and soybeans to the average of all the farms we work with. The corn information showed some larger flags than what we expected. For example, seed costs for irrigated corn per acre were \$8.76 less per acre, which is a reduction of 22 percent, but the biggest surprise was a \$24.45 per acre difference in fertilizer expense. This is a 37 percent savings over the average. (All of the details for the efficient farm comparison is available at [www.nfbi.net](http://www.nfbi.net) in the 2005 Top Efficient Farm publication or by calling (402) 464-6324. Pages 13 – 25 detail the enterprise reports for corn and soybeans and highlight the differences between our most efficient farms and our average farms).

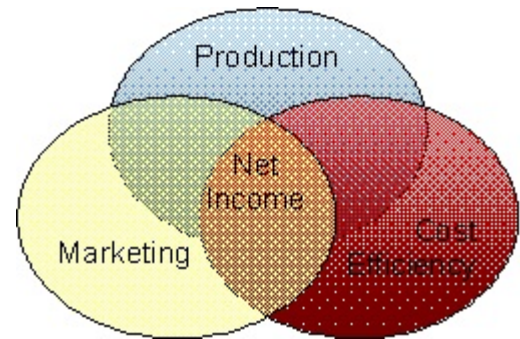
Like other questions, this one led me to wonder if we were talking about major differences in soil types, productivity which allows them less fertilizer usage, or simply accepting a lower yield in exchange for the lower cost. To determine land quality on a large scale we mapped the farms included in the study in yellow, and all the farms included in the averages in blue. We found the efficient farms to be spread out fairly well geographically throughout the whole sample.



One of the producers in this sample may have said it best when he said, “I just don’t spend the money.” Is the answer to six years of questions that simple? Is so much focus placed on growing gross income that the more important number of net income is being forgotten? Are producers spending more and more on better inputs that promise better yields without comparing the extra cost to get that yield? This is certainly being seen in the desire to secure more land for an operation. Both purchase prices as well as cash rental rates are being pushed past that which the land can service.

The three major players in net income has always been production, marketing and cost efficiency.

- Production has always been the farmer’s favorite and is the easiest to see and put your hands on. Its success is easy to see and measure.
- Marketing falls next in the ease of control and options. If it is not a producer’s strong point, it is easily “farmed” out to many professionals who will spend the time and energy to get the job done. It is still easy to add up and know what you sold your production for.
- Cost efficiency is no fun and often comes in such small measurements that it doesn’t make a big “splash” and is certainly not the topic at the local coffee shop.



Everyone wants to raise 250 bushel corn and sell it for \$3.00 a bushel, but if the cost to grow that corn exceeds \$750 an acre, there is still no profit. While these are unrealistic figures, many people wonder how you can make money at \$2.00 a bushel corn, but there are producers who have figured it out, and they aren’t just the super farms with thousands of acres. You can be really good at any one of these areas and make money, but being pretty good at all of them is even better.

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