

# BOOST PROFITABILITY IN TIMES OF LOW PRICES

## FINANCIAL TIPS TO STAY RESILIENT IN ANY YEAR

Over the past few years, many producers became accustomed to high commodity prices. However, with prices now on the decline and costs remaining high, farmers face a more challenging financial situation.

David Kohl, agricultural finance author and professor emeritus at Virginia Tech University, explains that this downturn in the commodity supercycle calls for farmers to prioritize their financial management. He shares tips on how farmers can keep profits up in a tough economic climate, and he explains top characteristics of the most profitable farmers.

### STEPS TO TAKE IN BEGINNING OF THE YEAR:

- Set one-year and five-year goals as a basis for developing a business plan. If there are multiple partners, develop goals individually to see if they agree.
- Find your cost of production because even a one- or two-percent difference can have a major impact on your bottom line.
- Create a road map for the year, with a balance sheet, a projected cash flow and dates set every quarter to check in on your progress and decide on any necessary changes.

### KEY TAKEAWAYS:

- Keep clear, current financial records to negotiate rents, determine profit margins and, ultimately, avoid losses.
- Be proactive in building side-by-side relationships with agricultural lenders and advisors.
- Learn from the common characteristics of resilient farmers who always make a profit. They always:
  - » Know their cost of production.
  - » Take a profit rather than always trying to hit a home run.
  - » Create and, most importantly, execute a strategic marketing plan.
  - » Are modest in family living withdrawals from the business.
  - » Have a team of advisors who offer advice and challenge their ideas.



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# UNCOVERING THE BEST FARM TAX PRACTICES

Lower commodity prices are challenging growers to sharpen their pencils and look for new ways to increase farm profitability. Consider these tips from John Gorman, agribusiness and cooperatives principal at CliftonLarsonAllen LLP, to help manage taxes to help ensure farm profitability.

- Growers can defer crop insurance due to yield-related damage caused by hail, drought, wind, flood or other disasters; revenue protection proceeds cannot be deferred. Also, proceeds can only be deferred to the following year if growers typically sell more than 50 percent of their crop in the following year.
- Farmers have the flexibility to report income in the current year or the following one by entering into a deferred payment contract with the cooperative or company where the grain was delivered and sold.
- While prepaying fertilizers, chemicals, seeds and other inputs is a common practice for reducing current year income, growers need to keep in mind that they can only prepay up to 50 percent of their inputs.
- When preparing for spring taxes, do income tax projections early to help ensure a profit in future years. Income projections are especially important with low commodity prices. By doing projections before filing taxes, growers can determine which expenses to pay to reach their desired tax bracket.
- The only way growers can know, understand and present their financial position to their bankers is with annual accrual basis financial statements with an accrual basis balance sheet and income statement. The accrual basis financial statements will also provide the grower with the information to prepare a breakeven analysis for the next crop years.
- Updating analysis documents as information changes gives the grower an educated estimate of the price need per bushel for their crops, helpful for forward marketing their crops. This is especially important with tighter profit margins.



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# KEYS TO EFFECTIVE SUCCESSION PLANNING

What will happen to your farm when you retire? Many farmers will pass the reins to their children, but the details of these transitions aren't always clear. A succession plan is key to ensuring that your farming operation continues to be a success and that the next generation is prepared when the time comes.

Kevin Spafford, founder of Legacy by Design LLC, explains the importance of succession planning and shares tips on how farmers can effectively draft a plan of their own.

## KEY TAKEAWAYS:

- Take all parties into account when writing your plan. Multigenerational farm families have members who will continue to work on the farm, as well as inactive members who have an interest in the family legacy—give everyone a seat at the table.
- Too many people think succession is for “someday,” just before they pass or retire. Getting a head start on succession planning before you retire offers a living benefit to the farm and to your family.
- Most estate plans aren't designed for succession. A succession plan mapping out the transition process is key to ensuring that the operation runs successfully for the coming generations.
- Start now. If you're in your later years, set up a transition plan that runs over a five- or seven-year period. If you're in your early years and you're planning 30 years out, look at the big picture and map out a direction for your operation.
- Get your plan in writing. That written plan should include:
  - » Ownership transition
  - » Leadership development
  - » Financial security
  - » Legal information
  - » Estate tax

Farming is both a lifestyle and a business. Help active and inactive members plan the transition by separating family issues from business matters and handling family assets separately from farm assets.



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If you have questions on succession planning, visit [www.legacy-by-design.com](http://www.legacy-by-design.com) or email Kevin directly at [kevin@legacy-by-design.com](mailto:kevin@legacy-by-design.com).

# EVALUATING YOUR CHOICES IN THE 2014 FARM BILL

The 2014 Farm Bill will bring changes to key crop safety net provisions, and soon growers will need to make a long-term commitment to a new risk protection program. Are you prepared to make an informed choice?

Nick Paulson, Ph.D., associate professor of agriculture, University of Illinois, is working with the USDA to help farmers make the major decisions facing them in the upcoming Farm Bill. Paulson explains what farmers need to know about the Farm Bill, what their options are, and how to choose the best program for their operation.

## KEY TAKEAWAYS:

- Farmers' first two decisions have a February 27 deadline:
  - » Updating payment yields
  - » Reallocating base acres
- Farmers must also choose a risk protection program by March 31. Their options include:
  - » Price Loss Coverage (PLC) program—If the average national price for a crop falls below a set reference price level, farmers will receive a payment equal to the difference.
  - » Agricultural Risk Coverage (ARC) program—Crop revenue is estimated using the five-year average for a given commodity. Farmers will receive a payment if their actual crop revenue is less than the projected average.
    - County coverage option—Crop revenue is estimated using average county production.
    - Individual farm coverage—Crop revenue is estimated using farm production history.

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## KEY TAKEAWAYS (CONT.):

- If farmers do not choose a risk protection program by March 31, they will be automatically assigned to the PLC program.
- To determine the best risk protection program, farmers should consider where they think prices are headed and what type of risk they are most concerned about—commodity prices or revenue.
- The program farmers choose is locked in through the life of the farm bill—until 2018. Be sure to research your options so that you are confident in this long-term decision.
- Decisions under the farm bill stay with the land regardless of whether the farm changes hands.

The University of Illinois is leading a project funded by USDA to inform farmers of their choices under the farm bill. Learn more about your options and take advantage of free tools, resources and webinars at the U of I Farm Bill Toolbox.



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# WHY MANAGEMENT? BECAUSE YOU WANT HIGHER YIELDS.

Most growers invest in managing their corn crop, unaware that similar practices can achieve higher yields and profits for soybeans, too. While management matters for soybeans, there isn't one silver bullet solution. With the right combination of management practices, growers can increase soybean yield potential.

Fred Below, professor of plant physiology and crop sciences at the University of Illinois, shares tips on how farmers can more effectively manage their soybeans and achieve higher yields and profits.

## KEY TAKEAWAYS:

- Start off strong by selecting the correct varieties, protecting them with the right seed treatments and ensuring fields have a base level of fertility.
- Don't let diseases or insects rob yield potential. An estimated 60 percent of yield comes from the middle portion of the canopy, so continually check that portion for signs of pests or disease.
- Research trials show that adding foliar protection at the R3 growth stage can increase soybean yield by three to four bushels.
- Narrow rows are best if you plant late or if you live further north because they allow you to capture more sunlight in a shorter time.
- Wide rows pay off if you anticipate a dry growing season because there is more soil area between each row, allowing the roots to get adequate water.
- Fertility is the biggest factor driving soybean yields, but 80 percent of farmers don't put any fertilizer on their soybeans.
- Keep in mind that even if you fertilize your corn crop, most of those nutrients are gone by the time you plant soybeans.



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# NEGOTIATING ILLINOIS FARMLAND RENTS

It's never too early to start managing costs for the following crop year. Growers need to be prepared to negotiate rental agreements to help manage costs of production, particularly during market downturns.

Gary Schnitkey, professor and farm management specialist at the University of Illinois, shares a handful of practical tips on managing rent costs.

- Conservation improvements such as installing tile and building waterways typically are the responsibility of the landowner.
- Tenants can help manage the costs of conservation improvements by securing government cost-shares and providing labor when the improvements are made, followed by ongoing maintenance.
- While some expect a correlation between lower commodity prices and declines in Illinois farmland and cash rents, it is hard to predict how cash rent prices and land values will change as commodity prices change.
- After dramatic increases in cash rents – from \$132 in 2006 to \$234 per acre in 2014, according to the U.S. Department of Agriculture (USDA) – rental values remain relatively steady even though prices for corn, soybean and wheat declined in 2013 before taking a “hard fall” in 2014.
- The land values forecast is stable to down 2 percent to 3 percent. USDA's National Agriculture Statistics Service valued Illinois farm real estate at \$7,520 per acre in 2014, up 5.9 percent from the prior year.

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Tenants and landlords should work together to determine farmland rents. Michigan State University Extension suggests that the following information is important to consider when setting a price:

- Nutrient content of soil (based on a recent soil test)
- Crop productive index based on the USDA Natural Resources Conservation Service (NRCS) soil survey
- Cropping history, including base acres and yields, as reported to the USDA Farm Service Agency
- Herbicide application history and its impact on crop rotation options
- Condition of drainage tile, if applicable
- Issues with access or obstructions such as telephone poles, stone piles, narrow drive, buildings, near school, fences, etc.
- Proximity to wildlife cover that could contribute to wildlife damage.

For more from the Michigan State University report, visit:  
[http://msue.anr.msu.edu/news/tips\\_for\\_negotiating\\_farmland\\_rent](http://msue.anr.msu.edu/news/tips_for_negotiating_farmland_rent)



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# REDUCE RUNOFF AND SAVE MONEY: TIPS TO MANAGE NUTRIENTS

Farmers have been bringing food to American tables for generations. But we have a new challenge—there will be two billion additional mouths to be fed by 2050. To keep up with such rapid population growth, we need farming to be both profitable and sustainable.

While farmers never plan to use more nutrients than needed, changes in the growing season can make it difficult to pinpoint the right amount to use. Howard Brown, Ph.D, manager of agronomy services with GROWMARK, Inc., explains how farmers can effectively manage nutrients while protecting their profits.

## BENEFITS:

- A nutrient management plan will help protect water quality while keeping your land profitable for years to come.
- When nutrients run off into the water supply, money is running off, too. Managing your nutrients can prevent unnecessary runoff and economic losses, while ensuring crops have the right nutrients when needed.

## MANAGEMENT:

- Focus on MOM – Minimize impact, Optimize harvest yield and Maximize input utilization.
- For nitrogen management, focus on the 4 Rs – the right fertilizer source, at the right rate, at the right time and in the right place.
- Reduce soil erosion in your fields to manage phosphorus.
- Work with your ag retailer to develop nutrient recommendations, create a nutrient management plan and match nutrient applications to crop needs.
- Use N-Watch, a nitrogen management tool, to track nitrogen over time.
- Consider soil type, topography and proximity to a major body of water when selecting your nutrient applications.



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**If you have questions on nutrient management, contact your ag retailer or your Soil and Water Conservation District representative. The 4R Nutrient Stewardship program provides additional information on nutrient management.**

# HOW TO STAY PROFITABLE IN UNCERTAIN TIMES

Farmers deal with uncertainty on a regular basis, from fluctuations in weather to changes in market demand. But lower commodity prices and higher input costs pose a new challenge—staying profitable in a tough business climate.

“We need to focus more on the financial management of the business than we have in recent years,” says Mike Boehlje, Ph.D., Professor of Agricultural Economics at Purdue University. Boehlje explains how growers can make the most of the current economic situation and he offers advice to manage your farm’s finances effectively.

## BOEHLJE’S FORECAST:

- Lower prices aren’t a temporary phenomena—the pressure on crops will continue, so growers should protect themselves from further price declines.
- Price variability makes for tough decisions. In these times of uncertainty, farmers need to focus on the financial side as well as the operational side of their business.

## KEY TAKEAWAYS:

- To determine the value of your inputs, always ask if the potential yield enhancement is greater than the cost. If you invest \$10 in fungicides, will you get that \$10 back through increased yields?
- When cutting expenses, consider their direct impact on your anticipated yield:
  - » Nutrient applications: Yields are very responsive to N, but we might be able to pull back on our P and K applications because we often have reserves in the soil.
  - » Machinery and equipment: The newest and the best in farm machinery can improve yields, but consider whether that investment is worthwhile if you already have reliable equipment.

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## KEY TAKEAWAYS (CONT.):

- Discuss rental rates with your landowner:
  - » Land rent is usually the highest expense per acre, but cash rents are slow to adjust.
  - » Share the numbers with your landowner to explain how their rent affects the profitability of your operation.
- Talk to your banker:
  - » Look for a longer payoff when evaluating the terms of a loan. Aim for a 20-year payoff on a new piece of land, rather than ten. Likewise, a three or five-year payoff is too short for new machinery.
  - » Anticipate issues and talk to your lender early on. If necessary, explain that you can make a payment this year but that if prices don't recover you might have trouble next year—lenders don't like surprises.
- Think like a Chief Financial Officer for top financial strength:
  - » Consider the financial side in addition to the operational side of a business—whether you have the capacity to pay off your debt, whether you should make investments in new machinery, etc.
  - » Think broadly about how individual expenses and investments impact the “big picture” of your farm's finances.

If you have questions on farm profitability or on Dr. Boehlje's work, visit the Purdue Center for Commercial Agriculture at: [ag.purdue.edu](http://ag.purdue.edu).



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