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Planning for the future with enterprise analysis

by *Kristen Schulte, farm business management specialist, Iowa State University Extension, kschulte@iastate.edu, (563) 547-3001*

As the harvest comes to a close, planning for next year will begin with deciding desired crop mixes. Livestock producers will continue to determine profitability potential in the coming months based on feed inventory or availability and production output. Proper economic, financial and production (agronomic or efficiency) analysis is required to ensure long-term profitability of an operation. Closely analyzing the different activities in the business can be critical to determining the success of the whole business. Many businesses, especially farming operations, are comprised of several enterprises; that is, more than one commodity contributes to net revenue. These enterprises may compete, complement or supplement one another depending on the associated requirements of inputs such as capital, facilities, feed, land or labor.

Enterprise analysis helps to allocate the limited resources of land, labor and capital of an operation to specific enterprises to determine its profitability and contribution to the whole operation. Additionally, based on the contribution to whole farm profit and use of input resources, one can evaluate the proper enterprise mix for the operation. Enterprise analysis can also help to determine the desired selling price of a commodity or evaluate production practices and associated cost of production.

For example, if a farm has a 200 head beef feedlot, what is the appropriate crop mix and number of required acres to complement the beef feedlot? This decision may be based on feed requirements or providing adequate returns to the whole farm within restrictions of available labor and machinery. The appropriate mix may be based on capital and labor available. For example, forage crops require more labor hours annually than a corn enterprise; the availability and timing of labor and machinery may define the types of crops and associated acres chosen.

Another example is a producer raising specialty crops. Fruit or vegetable crops take a varying amount of labor, capital and land. Some vegetable and fruit crops can generate positive returns on a relatively small amount of acreage compared to conventional crops; however, these enterprises may, in turn, have higher labor or capital investment requirements. Therefore, if a producer has a small land base and ample labor availability, a specialty crop acre mix to effectively utilize labor and capital to generate returns can be determined from enterprise analysis.

Enterprise budgets are available through ISU Extension on Ag Decision Maker. Budgets are available for crops including conventional and organic corn, soybeans, oats and forage; pasture; and fruit and vegetable production. Livestock budgets are available for swine and beef production at various production stages, along with budgets for sheep and dairy production.

In each ISU Extension budget, a break-even price for the commodity produced is calculated. When comparing between enterprises, only variable costs, such as machinery fuel and repair costs, need to be included. Fixed costs do not need to be considered because they will remain the same regardless of which enterprises are selected. However, fixed costs, such as cost for land or buildings, should be included when evaluating an enterprise to determine break-even cost of production. Enterprise budgets also include receipts from the enterprise. Be sure to include all sources of revenue, including manure for a livestock enterprise or corn stalk bales for a corn enterprise. Subtracting variable costs from expected revenue calculates a net return over variable costs per acre or hour for each enterprise, which can be used as criteria for choosing among them for an adequate mix on a whole farm basis.

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When evaluating enterprises, one should note that a snapshot of one production year may not be typical. Due to unusual growing conditions or crop rotations, one year may not be representative of the profitability of that enterprise. Therefore, an average of returns and inputs over time or a projection of long-term returns based on crop rotations may more accurately reflect potential profitability.

Enterprise budgets for crops and livestock are available online; however, individual farm factors such as availability to input suppliers and markets may affect costs and returns, so each farm should adjust the inputs to represent their own situation. Iowa State University budgets can act as a benchmark for average enterprises in Iowa or a starting place to make adjustments for analysis. Budgets are available on Ag Decision Maker, www.extension.iastate.edu/agdm, or by contacting your local extension office.

Is Brazil the reservoir of future agricultural productive capacity?

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Back in 2001, we estimated that Brazil could bring 200 to 300 million acres of land into agricultural production—an area equal to the U.S. acreage involved in major crop production. Two years later, the USDA Foreign Agricultural Service (FAS) estimated that over time the potential added production acreage could be closer 420 million acres.

In our 2003 article describing the FAS report, we wrote: “The long-term trend suggests that this expansion would proceed at the rate of 3 to 4 percent a year, if current conditions continue to prevail. Significantly lower crop prices or higher cattle prices could retard the expansion of crop acreage, while high crop prices could accelerate the growth in crop acreage.

“This growth is premised on three conditions: 1) the legalization of the production of GMO crops in Brazil; 2) the widespread adoption of high-yield crop varieties; and 3) improvement in the transportation infrastructure in Brazil that will lower the cost of getting agricultural crops to the port.”

Let’s look at this information once again, nearly a decade later. Crop prices this year are at record levels. Brazil has long since adopted the cultivation of GMOs and soybean yields match

or exceed those in the United States, depending upon weather. The only obstacle Brazilian farmers face is getting the crop from the field to international markets, though that will not always be a problem.

Thus, we were not surprised to read, in a series of three DTN articles by Alistair Stewart, that “record prices will prompt Brazilian farmers to plant soybeans on any available ground this season [note the word “season” not “year”], whether it be old pasture in the east of Mato Grosso, recently cleared scrub in the new frontier lands of the northeast, or land previously earmarked for corn in the south. As a result, soybean-planted area is set to rise for a fifth consecutive year—by 8 percent to 12 percent to 67 million to 69 million acres—forecasters say.”

And that is not all. If farmers in a number of areas are able to get the soybeans growing in time, they will be able to double-crop their fields with corn in late February. While corn yields in Brazil are well below those in the United States, a second crop of corn helps cover fixed costs, increasing already profitable margins per hectare. Those who are able have every reason to try to double-crop their fields.