Enterprise Diversification to Improve Efficiency and Profitability

### Objectives

- Provide an overview of production diversification
- Explore the opportunities and challenges in improving diversification
- Outline non-production diversification options
Why is it of interest?

- Many growers are searching for a “silver bullet”
  - What can I grow instead of…?  
- Better utilization of production resources
  - Land, labor, capital (machinery)
- Improved ecology
- Additional revenue generation
- Can provide opportunities for growth
  - May allow for others to join the farm business

What does it look like?

- Crop diversification
- Livestock enterprises
- Complementary business enterprises or activities
- Outside of agriculture investments
### Diversification

**History**

- Farm businesses used to be more diversified and less specialized
- My grandparents farm
  - Corn, oats, alfalfa, pasture, large garden, hogs, cow calf, beef feedlot, poultry for market egg and meat
- My parents farm in my youth
  - Corn, soybeans, oats, alfalfa, fed hogs, background heifers, commercial and seedstock sheep production

**Current Situation**

- My parents farm today
  - Corn, soybeans
- Why the change?
  - Economies of scale
  - Drive to be low cost producers
  - Margins (didn’t need other revenue)
  - Labor supply
  - Age of operator
  - Other?
### Geographic Differences

- More populated areas have better opportunities for off-farm income as well as opportunities to market a more diverse mix of food and feed products
- Smaller field size may inhibit the use of larger scale machinery
- Cultural differences may favor more diversification in production
- Land quality and/or access to markets may have influence on diversification

### Types of Diversification

- Additional crops
- Livestock enterprises
- Complementary businesses
- Outside of agriculture investments
There are many advantages of adding additional crops to your operation, there are many challenges associated with raising and marketing additional crops profitably.

- **Crop Diversification**

### Types of Diversification

#### Northern Plains
- Corn and soybeans dominate
- Wheat and sugarbeets are important crops
- Barley, dry edible beans and cash hay crops have some importance
- In my township only two farms have livestock other than horses

- **Northern Plains**
## Positives
- Improved yields of existing crops with rotation
- Opportunities to capture revenue from higher value crops
- Extend planting and harvest season to better utilize labor and machinery

## Challenges
- Addition investment may be required
- Learning curve on production practices
- Most market prices are interconnected
- “specialty” crop supplies can over produced very easily

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**What is the point?**

- We have moved away from growing diverse crops, primarily due to economic reason, in the most productive areas of our country.
- Unless you have a long term commitment to maintaining or returning to a different crop rotation, it is most likely not going to be successful. You will need to make investments in time, infrastructure and professional development in order to be competitive.
Livestock Enterprises

• In many areas livestock has all but disappeared.
• The scale and specialization needed to be competitive in livestock production has changed just as crop production has.
• The investment needed to add a commercially viable and competitive livestock operation is beyond what many are interested in taking on.
• Livestock skills and the year round commitment needed to raise livestock has disappeared from many operations

Livestock Enterprises

• Farm businesses that are committed to enterprise diversification can consider adding or growing a livestock enterprise in a variety of ways.
  • Commercially scaled investments
  • Specialty production
    Seedstock
    Locally raised and marketed
    Organic
    Other
  • Livestock production also allows for more crop diversification
Many farms have done a great job of creating and building complementary businesses to better utilize their resources and to generate additional income.

There are many more farms that need to do find ways to do this in order to stay or become profitable enough to maintain lifestyles and/or to add others to their farm business.

Non-Production Diversification

- Seed (crop genetics) sales
  - Limited opportunities in most areas
- Trucking
  - Requires a separate enterprise and insurance (risk management program)
- Custom farming and/or custom operations
  - Understanding of your costs and risks are essential
  - Whole farm custom or operation custom
    - Spraying, rolling, hauling, drainage

Complementary Businesses
Complementary Businesses

• Farm management firms have increased the return for their landowner customers by leasing land to farmers and leasing hunting and other recreation rights separately
• There is no reason that farmer landowners can’t emulate this model

• Natural Resources

Complementary Businesses

• Repair, machinery maintenance, machinery setup
  • Specialized skills and a local demand is necessary
  • Some farms are creative in this area
• Consulting services
  • Technology consulting, crop scouting,
• Other services
  • Web page development, Social Media, book keeping, newsletters
Non-operational Investments

• Examples include –
  • Local energy distribution
  • Crop protection and fertilizer business
  • Other?
  • Non-Ag investments
    • Commercial real-estate
    • Community investments
    • Other?
  • Off season or complementary employment
    • Examples – Crop adjusting, tax preparation, other?

Diversifying Income Streams

• Decide if you want or need to improve the diversification of your farm business
• Identify enterprises or complementary businesses that would be a best fit for your farm business
• Spend the time necessary to become confident that the investments you make in diversifying your income streams will improve and/or enhance your business

• Action Steps
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