



## Managing on Thinner Margins

Bradley Zwilling, Brandy Krapf, and Dwight Raab

Illinois FBFM Association and Department of Agricultural and Consumer Economics  
University of Illinois

January 15, 2016

*farmdoc daily* (6):10

Recommended citation format: Zwilling, B., B. Krapf, and D. Raab. "Managing on Thinner Margins." *farmdoc daily* (6):10, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 15, 2016.

Permalink: <http://farmdocdaily.illinois.edu/2016/01/managing-on-thinner-margins.html>

While actual data has not been collected at the moment, farm income in general will be down considerably in 2015. Without a material reduction in input costs, 2016 stands a good chance of showing more of the same. Today's article will review selected costs from a group of farms in Illinois with an eye on how those selected costs vary by farm size in 2014. A lesser per acre cost of production is thought to occur as farm size increases. The data at hand indicates that per acre costs does vary with farm size, but larger farms do not always lead the way in terms of lower cost per acre.

Table 1 illustrates what many consider to be five of the more significant input costs for a group of Illinois FBFM grain farms. The data represent aggregated data from three acreage ranges from northern, central and southern Illinois.

	Northern Illinois			Central Illinois			Southern Illinois		
	1200-1999	2000-2999	Over 3000	1200-1999	2000-2999	Over 3000	1200-1999	2000-2999	Over 3000
	Acres	Acres	Acres	Acres	Acres	Acres	Acres	Acres	Acres
Fertilizer	\$129.63	\$124.29	\$134.56	\$120.02	\$121.60	\$116.48	\$101.07	\$111.87	\$112.22
Pesticides	\$59.67	\$54.73	\$52.41	\$55.55	\$54.50	\$54.27	\$56.43	\$49.70	\$48.58
Seed	\$106.08	\$105.99	\$97.59	\$99.47	\$97.30	\$91.71	\$81.27	\$88.74	\$81.44
Machine Depreciation	\$76.88	\$73.48	\$71.82	\$63.59	\$60.90	\$62.75	\$69.19	\$72.92	\$58.47
Cash Rent	\$259.27	\$260.75	\$292.78	\$294.65	\$293.48	\$285.92	\$142.96	\$161.05	\$174.53
Owned	19%	20%	17%	11%	12%	16%	24%	25%	17%
Cash Rent	61%	66%	76%	41%	48%	54%	40%	38%	53%
Crop Share	19%	15%	7%	48%	40%	30%	37%	37%	32%

Source: Illinois FBFM

We request all readers, electronic media and others follow our citation guidelines when re-posting articles from farmdoc daily. Guidelines are available [here](#). The farmdoc daily website falls under University of Illinois copyright and intellectual property rights. For a detailed statement, please see the University of Illinois Copyright Information and Policies [here](#).

All three geographic groups show the tendency for a larger percentage share of cash rent acres as the farm size increases. The share of acres owned is lowest for the central group (11% to 16%) while the share of acres owned is highest for the southern group (17% to 24%). The percentage of crop share acres in general is higher in central Illinois and lowest in northern Illinois.

Fertilizer costs on a per acre basis are higher on the Over 3000 acres groups in northern and southern Illinois. The three central Illinois groups show a remarkable amount of consistency of per acre fertility costs.

Pesticide costs are lower in the Over 3000 groups in northern and southern Illinois. As with fertility costs, the three central Illinois groups show a remarkable amount of consistency of per acre pesticide costs.

Seed costs are lower in the Over 3000 groups in northern and central Illinois. The three southern Illinois groups show a remarkable amount of consistency of per acre seed costs.

Machinery depreciation as a cost can be controlled but its effect is felt over the life of the assets and those assets have a life of more than one year. Thus, even if machinery purchases are curtailed for a year or two, the effects of purchases made in earlier years will affect this years' depreciation. Illinois FBFM uses economic depreciation to counter the use of Bonus Depreciation and the IRS Code Section 179 Expense Election and more accurately reflect the recovery of the cost of machinery. Most farm machinery would have an economic life of ten years.

Machinery depreciation is lower in the Over 3000 groups in northern and southern Illinois. The three central Illinois groups show consistent per acre machinery depreciation.

The Over 3000 groups in northern and southern Illinois are higher than the other two groups. The three central Illinois groups show some consistency in cash rent costs with the Over 3000 group showing the lowest average cash rent of the three groups.

There are many different management styles. The least cost producer strives for the lowest per acre cost while the producer seeking the greatest return on their input investment will spend input dollar to reap the greatest revenue return for those dollars. Review your input costs to see if you might be 'spending a dollar to make a dime' and evaluate where you have the opportunity to pare costs without affecting your bottom line.

The authors would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,500 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel along with recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at [www.fbfm.org](http://www.fbfm.org).