



Farm Talk

By
Jerry Webb

A successful full-time farming operation needs to gross \$200,000 a year. That's not my idea. It's one that's being discussed in economic circles and it's a concept that "Successful Farming" magazine feels is worthy of consideration. In fact, the magazine has invited its readers to comment.

A story in the May issue of Successful Farming illustrates the \$200,000 concept and why it's important to today's farmers. The article sites Tom and Jane Page and Jim and Susan Johannsen, two South Dakota farm couples who are in the business full time and are trying to make it go. The Page's are about half-way to their goal. The Johannsen's just a little shy.

The Successful Farming story also quotes Lloyd Ferguson, an Oklahoma financial consultant, who also believes that \$200,000 is a minimum gross sales target for full-time farmers. He talks about a

gross profit on revenue or GPR. That's the farm's total cash revenue, minus total cash farm expenses including interest expenses but excluding depreciation and income taxes. That figure is then divided by total revenue to yield a GPR percentage.

If a farmer comes up with a 10 percent GPR on sales of \$200,000 — that means he has 20,000 left to pay living expenses and taxes, to repay principle on any debt and to replace machinery or other capital items. Obviously, a 10 percent GPR is not very good. With even minimal taxes and subsistence cost of living, the farm couple has little or nothing left to repay debt and replace machinery.

That's where a lot of farmers are in trouble these days. Whether they know it or not their gross

profit on revenue is even less than 10 percent. They may be selling \$100,000 worth of produce with expenses of \$90,000. That's not enough total revenue and the GPR percentage is not enough. So there is nothing left for family living or debt retirement. In fact what happens in so many cases is that operational expenses are left unpaid just so the family can be fed and cared for. Only those bills that are absolutely essential are dealt with because there just isn't enough money.

Ferguson and some other experts feel that a \$200,000 gross at least offers the opportunity for a full-time farm income. And Ferguson thinks a 20 percent GPR is much more comfortable on the \$200,000 revenue. That would mean \$40,000 of positive cash flow before taxes. With a \$5,000 tax burden and much more acceptable \$20,000 living expense that would still leave \$15,000 for debt repayment and replacement of capital equipment. Ferguson says even \$15,000 is a minimal figure. One bad year and you are in serious trouble.

The \$200,000 gross revenue figure is not a magic solution. Plenty of farmers have grossed that and more and have still gone broke. And no doubt there are farmers living comfortably on much less than that. Obviously a 40 percent GPR on a \$100,000 gross would yield that same \$40,000. But that may not be realistic with most

farm enterprises. In fact, the national average is only 5½ percent according to Successful Farming.

Many farmers are finding ways to improve their GPR whether they call it that or not. They are cutting expenses and locking in more favorable prices. They are boosting yields and eliminating unnecessary frills.

The Pages started farming at the worst possible time — 1979. They don't own any land, preferring to keep their modest resources invested in something that pays better. They don't even own their home. They rent 600 acres of cropland and 500 acres of pasture and hay ground and feel they can rent for less than the interest costs alone if they were buying that same ground. In addition to crops, their gross income includes sales

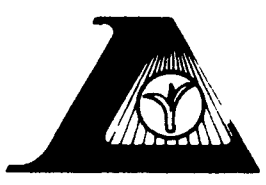
of the yearlings from a 75-cow beef herd and feeder pigs and finished hogs from 35 sows. The Pages plan to rent a few more acres of cropland and add some more sows. Eventually, they hope to buy some land for a home base.

The Johannsen's started in 1973. They now own 400 acres and rent another 1,500. They grow wheat, oats, corn and barley and feed out about 150 head of beef cattle each year. Their future expansion includes a farrow to finish operation selling 700 hogs a year.

Both of these couples think a \$200,000 revenue goal is realistic in today's agriculture. That figure won't guarantee a comfortable living or debt-free existence but it does offer a shot at success.

It's a concept that's going to be drawing some attention in the months ahead.

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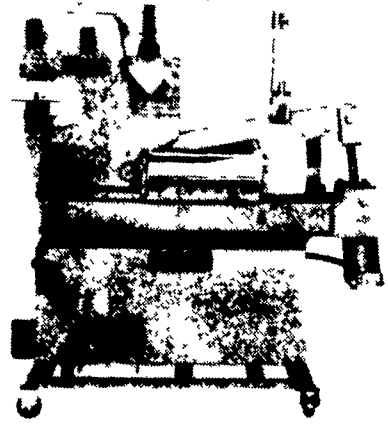


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