A.E. 420

YOU SHOULD PLAN TO

GET BETTER BEFORE YOU GET BIGGER

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I. Improve Unit Efficiency Before You Increase Volume.

A. Two main stages in a livestock farmer's business.

1. Producing the crop efficiently--higher net yields.

(a) Soil test - lime and fertilize according to recommendations.

(b) Provide adequate drainage.

- Surface drainage is the first step and most economical.
- Tile drainage will pay good dividends in addition to surface drainage in many areas.

(c) Tillage.

- Don't plow when soil is wet.
- Don't carry out other tillage operations when soil is too wet.
- Don't winter pasture when soil is wet.
- In corn production prepare a good seed bed without over working the root bed. Over tillage can be costly.
- Weed sprays are a supplement to tillage in some cases.

(d) Seed - There is no substitute for certified seed. Results in higher yields and less weed contamination. Higher rate of planting in corn production to balance soil fertility is a must for most profitable results.

(e) Harvesting and storage with the minimum of waste is the final step in crop production. This includes proper adjustment of harvesting machine, speed, and timeliness. With storage you must be concerned with waste from rodents, moisture and oxidation.

2. Converting the crops to meat and milk efficiently.

(a) The key here is high producing brood stock. Performance tested stock pay good dividends. Use a testing program and have the nerve to screen the loafers.

(b) Feed - the animals must consume adequate amounts of high quality feed for high meat and milk production. This is an area we might make our quickest improvement in production and profit. Study your requirements and feed accordingly.

(1) Waste - 1/2 to 2/3 of the cost in livestock production is feed; so feed waste before it gets to the animal's mouth may be far more than you realize. (Feeder adjustments; time and method of harvest; storage; etc. are few places waste may happen.)

(2) Balance rations for cheapest gains.

B. Timeliness and observation.

1. Planning the jobs to be done on time is one secret to crop and livestock profits.

(a) The quality and protein content of hay are so dependent on time of harvest. Proper timing of many other crop production practices are very important.

(b) Livestock production is very dependent on time practices.

2. Observation - "The Eye of the Master" must be present plus judgment, concern, and action.

C. Overhead costs - unit efficiency may be impossible with your present fixed or overhead costs in the way of investment in facilities, machinery, equipment, labor, etc.

1. Many times we do not figure the annual cost of our capital purchase before we buy.

2. Once we buy the only salvation is intensify the use of the new fixed cost.

II. Second Step is Increase Volume.

A. In crop production this may have more than one possibility:

1. Intensify the rotation on present unit.

2. Adding more land to the present unit either by renting or buying.

3. Storage feeding thus less waste from pasturing and more uniform feeding program.

B. Livestock program should be geared to maximize the use of facilities, labor, etc.

C. Increasing volume helps intensify the use of some costs. In studying costs to determine which changes should be made, you will find it helps to keep in mind the nature of various costs and their relation to returns.

1. Some costs are fixed - Some cost items are pretty much fixed in short periods and are always very sticky. These are property taxes and interest on money you owe or have invested in the land yourself. Irrigation and drainage costs may be sticky, too. You can cut these costs only by making more effective use of them. You use these expense items more effectively when you spread them over more output. This can be done by increase use on your farm or buy custom work.

   Another important group of costs are not quite so fixed, but still you cannot reduce them quickly. These are the depreciation and investment in buildings and to some extent in machinery. In the longer run, as these items wear out, you have the opportunity to attempt to cut them. You may have to treat family labor in this category also when it is available for use and will not be employed elsewhere.

2. Some costs are variable - Other costs vary with output such as fertilizer, fuel, labor, feed, seed, and crop expenses. These are direct operating costs and can be cut more readily. You can increase or decrease the money spent on these and output will nearly always be affected. The big problem here is whether it pays to cut them and, if so, how much.

   Some of them vary in direct proportion to output, like baling wire or, in general, fertilizer.

   The decision is complicated, however, by the fact that many other costs do not vary directly with output. When you use only a little of a cost item, your returns may be very high; but as you use more of it, the added returns sooner or later grow smaller until it no longer pays to use more of the item.

   In fact, before the point of no profit is reached, returns to added units may have dropped to where it would pay better to start increasing another cost item. You've done the best you can when the last quantity you apply gives about the same return that it would earn in the best of alternative uses.

III. Net Profit = Unit Efficiency + Volume.

A. With unit efficiency low (low yields per acre and low production per animal) even though volume is high, net profits can be very low if there is any profit at all. As the saying goes, "There is Nothing Worse Than Being Big and Bad."

B. On the other hand you can have unit efficiency but if you only have a few units you can starve to death. Farming, as most other businesses, in today's world must expand vertically or horizontally in order to increase volume to stay competitive.