ROW CROP CONSOLIDATION
AND ITS POTENTIAL IMPACT FOR YOUR FARM
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WHAT IS ROW CROP CONSOLIDATION?
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Row crop consolidation is the shrinking of the number of, and the increase in size of farms across North America.

USDA and Statistics Canada numbers show that medium-sized farms are disappearing as they are either growing to become larger farms, reducing in size to be a small or niche-market operation, or even leaving the industry completely.

Larger cropland farms are growing in acreage, and technology is advancing quickly. Meanwhile, many small and mid-size farms may not have the resources, skills, or capital to keep up.

Others may not recognize the seriousness of this threat.

We witnessed it in the other ag sectors and now it’s happening in row crops.

If small and mid-size family farms don’t adapt to keep up with the changes in the industry, the risk of falling victim to consolidation is high over the coming years.
There are others who also acknowledge that consolidation is happening:

“As farmers drop out, existing operations will absorb those acres. The capital costs and management requirements are just too prohibitive for new farmers to come into the industry on a commercial scale. That means the bulk of production will be concentrated in fewer and fewer operations.“ - Dr. Danny Klinefelter, Texas A&M

“We are heading toward a bimodal structure with a few very large producers and a larger number of small, local niche marketers. Medium sized farms will become fewer and will be a transitional group of small farms becoming large.” - Cornell University
IS IT REALLY HAPPENING?
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Consider the following statistics:

- Total cropland farms decreased 17% from 1997 to 2012
- From 2001 to 2011, the number of crop operations farming more than 10,000 acres increased by 179%.
- Across all farm types, the largest 1.1% of farms produce 44% of all gross revenues

And the same thing is happening in Canada:

- The number of farms from 2006 to 2011 decreased by over 10%
- The largest 2.6% of farms produce 40% of total farm receipts

Yes, it’s really happening…and quicker than most realize.
CONSOLIDATION OF OTHER AG SECTORS
THE CONSOLIDATION OF OTHER AG SECTORS

Let’s look at some of the other sectors of agriculture, which have already consolidated as the below statistics show.

POULTRY

- In the last 50 years, the number of farms in poultry production has decreased by 98%!
- One in every 4 chickens is a Tyson grown chicken.

DAIRY

- Largest 4% of dairies produce ½ of the milk
- Number of dairies fell by 33% from 2001 – 2009, yet overall milk production increased 15%
- The largest dairy farm in the US has 65,000 cows, this market share is equivalent to 2,552,784 acres of row crops – in a single operation

BEEF

- Largest 2.47% of feedlots produce 85% of the beef
- JBS has beef market share that would be the row crop market share equivalent of a 25,600,000 acre row crop farm
PORK

- Largest 2% of operations produce 80% of pigs
- Between 1988 and 2008, the number of hog producers in North America declined by 84% and overall we have lost over 600,000 pig operations since 1980
- Smithfield alone produces over 15 million pigs/year - this market share is equivalent to a 48,750,000 acre row crop operation

One of three things happened to farmers in these other sectors...

1. Disappeared as other farming operations grew larger
2. Became smaller and/or part-time; or
Why is this happening?

The farms in these sectors hit a “glass ceiling” - a point where additional improvement and growth of their business required skills they hadn’t learned and relationships they didn’t have, leaving them in a vulnerable position.

Additionally, acting alone, mid-size operations lacked the leverage to lower their costs and increase their revenues.

Most did not notice or envision the changes occurring or what a family operation would need to have in place in order to remain viable and continue the family legacy.

Others ignored these trends altogether, assuming their family would always be successful, and that the industry couldn’t really change very much, or very fast.

We’ll look more specifically at the pork sector next >>
HOW DID PORK CONSOLIDATION HAPPEN?
HOW DID PORK CONSOLIDATION HAPPEN?

The founders of FamilyFarms Group did a lot of consulting and training in the pork industry in the 80’s and 90’s, so they are intimately familiar with this sector.

They lived through what happened but didn’t realize it was happening at the time – this is a key point because the same things are going on in row crops – things are consolidating but producers (and even the industry as a whole) are not realizing it.

With the benefit of hindsight, they closely examined why some producers made it and why the majority did not.

There were the five commonalities of those that didn’t survive pork consolidation:

1. They lacked management tools and skills
2. They fell behind in size
3. They did not standardize processes for efficiency and to maintain consistency
4. Their capital model kept them from catching up - felt they had to own all aspects of the operation
5. Inability to envision – they believed the industry would continue as it had in the past and hence felt that they could continue doing the same things the same way
As a result, they did not adjust quickly enough and became insignificant players in their respectful industries.

Unfortunately, many of these became victims of the pork industry consolidation.

After examining what occurred, it became clear that without a system and vision to overcome the factors that led to the demise of the independent family farm in others sectors, crop families would experience a similar outcome.

Row crop farmers needed to improve their business practices and skills, increase their operational efficiency, improve profits, and gain enough leverage in the marketplace to remain viable in this new environment of increased competition, farm size, and consolidation.

FamilyFarms Group sees the same or parallel things happening within the row crop sector and is applying the lessons learned to help keep crop operations from following the same path.
WHAT’S CAUSING ROW CROP CONSOLIDATION?
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So, what about row crop agriculture?

While there are many, let’s touch on what we believe to be the top five contributing factors.

FACTOR #1: AGE

The average age of U.S. farm operators increased from 55 in 2002, to 58 in 2012. Even more alarming, the number of operators over 75 increased by 26%, while the number of operators under 25 decreased 40% (Source: USDA).

In Canada, from 2001 to 2011, the average age of operators rose from 49 to 54 (Source: Statistics Canada).

RESULT

There simply is not as many farmers, so on average each one is farming more acres.
FACTOR #2: ADVANCES IN TECHNOLOGY

Technology and equipment continue to get more sophisticated and efficient (e.g. bio-engineered genetics; precision ag technologies such as VRT, auto-steer, and swath control; with driverless equipment being tested now).

Most farmers would acknowledge that with the advent of glyphosate, the change/reduction in tillage practices, and improvements in hybrids, chemicals and fertilizers, etc...that fewer passes over a field are needed compared to the past.

RESULT

These tools simply allow producers to farm more acres with the same/less time and effort.
FACTOR #3: CAPITAL ACCESS

It’s becoming more difficult for farms to access the credit they need for inputs, increased land rents, and to keep up with new technologies.

Additionally, as operations grow and hence the size of loans grow, the rules for accessing capital change once hitting $7 - $10 million and it is more difficult to meet lender requirements.

RESULT

Fewer operations can attain the capital needed to fund growing operations.
FACTOR #4: ECONOMICS

Economies of scale are available when operations work in conjunction with one another that give them shared wisdom and leverage with suppliers and buyers that they could never achieve on their own.

RESULT:

Operations that work strictly on their own will be at a competitive disadvantage.

Additionally, larger operations can spread fixed costs over more acres, reducing per acre costs, but yet often need training, advice and assistance to get efficiency in a larger operation.
FACTOR #5: COMFORT ZONE

Many producers are used to making decisions based on what has worked in the past, but as someone once said “you can’t do today’s job with yesterday’s methods and be in business tomorrow”.

RESULT:

Those that learn and implement new skills and ideas within a rapidly changing industry will succeed long-term. In the words of Jack Welch, former CEO of General Electric:

“Unless an organization is changing on the inside as fast as the industry is changing on the outside, the end is in sight.”
All of these factors contribute to the trending crop consolidation and remain a threat to farmers keeping their legacies alive and thriving.

Consider Wayne Gretzky’s comment about how he became one of the most successful hockey players of all time:

“It did not skate to where the puck was. I skated to where the puck should be.”

You can operate from where you are now and hopefully avoid crop consolidation becoming a threat, or you can operate based on where crop farming is headed, turn consolidation into an opportunity and - increase the success of your business for your family.
WHAT IS THE PROOF THIS IS HAPPENING NOW?
WHAT IS THE PROOF THIS IS HAPPENING NOW?

In addition to the statistics shown on page 7:

- The number of harvested cropland farms in the U.S. has decreased 16.6% from 1997 to 2012
- The number of farms with at least 2000 acres of harvest cropland has increased 10.4%
- The number of farms in Canada has decreased 10.5% in only a 5-year period of 2006 to 2011
- Overall, 70% of North American ground is farmed by the largest 11% of operations while just 4% of the ground is farmed by the smallest 40% of operations

In short, **row crop farm sizes are increasing** and although they make up a much smaller percentage of farms, they far and away produce the greatest percentage of crops and revenue.
OUTSIDE INFLUENCES AFFECTING AGRICULTURE
Several external factors are also having an effect on North American farming.

- Consolidation has already happened in other parts of the world.
- A team from FamilyFarms Group visited South America in 2011 and discovered 9 operations, each with over 1,000,000 acres and growing.
- Adeco Agro specifically has been profitably growing at 19% per year for the past few years while farming internationally.
- Now instead of being independent, many farmers are just getting paid salaries while being controlled by huge farm operations like Los Grobo in South America (610,000 acres in 2013).
Why should this matter to North American farmers?

Because several of these huge operations have said they have plans to come to the U.S. and some South Americans are already buying or renting U.S. farmland now. Their model is making its way here.

**There are also domestic threats** – Two huge agri-businesses have begun contract row crop farming in the U.S. already. Such vertical integration from processors, and the entry of significant capital to row crop production from U.S. companies may be a stronger threat than that of foreign competition.

**Given the recent downturn in market prices, some see rough times ahead for crop farmers.**

“The last six years have been extraordinary years if you are a row crop producer,” said Matthew Roberts, an associate professor at Ohio State University’s Department of Agricultural, Environmental and Development Economics. “The next six years will not be like that. We are entering a four year to five year period of lower costs and profitability. I think we’ll see some farms...go bankrupt.” (Southwest Farm Press, Jan. 2014).

This could foster further consolidation. Farm families can try to deal with these and other forces on their own, but they have a much better chance of success when working in conjunction with other like-minded producers.
HOW TO KEEP YOUR FAMILY FARM LEGACY ALIVE
HOW TO KEEP YOUR FAMILY FARM LEGACY ALIVE

The ag industry is changing very rapidly.

Remember what Jack Welch told us,

“Unless an organization is changing on the inside as fast as the industry is changing on the outside, the end is in sight.”

So, what are you going to do to change as fast on the inside?

You need a plan to grow and manage responsibly!

Where are you going to learn how to run the new type of operation that will be needed to remain competitive and relevant?

You need to learn additional skills and have different relationships to tackle the different issues that these new, larger operations have.

That’s what FamilyFarms does – we help get you ready for the changes your operation will face in tomorrow’s agriculture.
Specifically, what should you do?

1. Begin with a top-to-bottom, in-depth evaluation of your business – you’ve got to know where you are now.

2. Get and stay ahead of others with your business management tools and abilities – someone once said that the only true competitive advantage is to learn more and adapt faster.

3. Increase operation efficiency. Define roles and streamline processes to save time and reduce costs while still maintaining a consistent high quality.

4. Put a structured customer (landowner) service plan into place.

5. Grow acres whenever sensible.

6. Become connected and informed through training, continued education and networking with other independent family farmers with similar goals and priorities.

7. By all means, retain your decision-making autonomy and independence.

FamilyFarms helps you do all these and more.
The term “sustainability” in agriculture has been used primarily in the context of one’s agronomic and environmental practices.

We believe that it is just as important to improve sustainability in the context of one’s business practices. You need to have a sustainable business for future generations to remain in farming if they choose to – that is what the FamilyFarms Group is all about… “Keeping Families on the Farm.”

At the time of this publication, FamilyFarms Group consists of 65 fully independent family farm operations totaling over 500,000 acres.

We are looking to add to our members, which means more...

- strength
- knowledge
- leverage
- sustainability for everyone.

But, we’re not looking to add just any producers, they need to be the right producers.

Perhaps this is you.
SOME CLOSING THOUGHTS
SOME CLOSING THOUGHTS

Row crop consolidation is a real threat and it’s happening now. See the parallels between the other sectors in agriculture and row crop farming.

You have the decision-making power to address the change-issues with an-all inclusive system to help you.

Learn from others and avoid falling victim to the same phenomenon in row crop farming so you can keep your legacy alive. It’s a proactive approach to set up your business and family for success.

And everything you need to do it is at your fingertips, with FamilyFarms Group.

WHAT DO I DO NEXT?

If you’d like to learn if or how the FamilyFarms Group might help you and your family, the next step would be a need analysis.

A needs analysis is a free 90-minute phone call to learn what you are doing now, your goals, any areas of concern, etc. We’ll give you a brief assessment of your situation and outline possible next steps.

If we find we can work together, you will gain an ongoing partner in building the foundation of a solid business that will preserve your operation’s independence and legacy. Go ahead, take the first step towards preserving and strengthening your family farm for generations to come and avoid being a victim of crop consolidation.
ABOUT THE PUBLISHER

FamilyFarms Group was created to help family-owned row crop farm operations compete and thrive through the present and growing threat of row crop consolidation.

We provide medium and large farms with an all-inclusive business management and implementation system that delivers the relationships, training and leverage needed to drive success for generations to come.

Ultimately, members of FamilyFarms Group gain economic benefits and competitive advantages that they could not access on their own while retaining the independence and legacy of their family farm businesses.