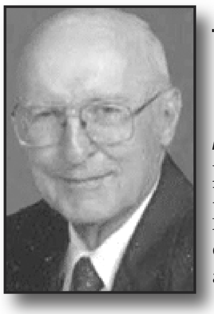
Megafarms: A Challenge For Independent Family Farms



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At the recent Illinois Society of Professional Fa-rm Managers and Rural Appraisers annual meeting, Rick Rosentreter explained how he farms 30,000 acres of mostly corn and some soybeans across south central Illinois.

He emphasized that consolidation was their goal and did not claim that this approach to farming was right or wrong.

His operation began as a joint operation with his father farming 650 acres after he graduated from the University of Illinois in 1991. When they lost the lease on one farm because they refused to meet another cash rent offer, he realized that they would need to change their management approach to acquiring land to farm.

Rosentreter pointed out that consolidation in agricultural production has been underway for many years, citing vertical integration in poultry and pork, and large scale beef feed lots in the South and West. He sees a future restructuring in mid America crop production with a few very large operations and a large number of small specialized and part time farms. Farm size data show that one-third of the total agricultural revenue comes from farms with gross incomes over $2.5 million.

The stated mission of their operation, Illinois Family Farms, is "to provide landowners a profitable return while increasing the scope and profitability of their operation through top agronomic, marketing, technological and stewardship practices."

Their goal is to grow a highly successful profitable business built on a foundation of bold innovative thinking, technology and superior management. They utilize the latest technology such as yield monitors, global positioning systems, variable rate technology, triple stacked hybrids and a comprehensive information management system to realize higher than average yields and returns for their major revenue center corn.

With the resulting higher profits, the farm has invested in better infrastructure such as grain handling and storage to increase the marketing opportunities and efficiencies. They use innovative marketing tools and concepts on mostly corn on corn rotation to achieve greater revenue per acre. Their large base of operations allows them to justify cost reducing assets such as dry fertilizer and anhydrous ammonia facilities, seed dealerships, custom application, and a trucking company – assets that prove to be a major competitive advantage over their competition.

Although many would see this operation as a mega farm, Rosentreter sees their operation as a family farm that seeks to provide a positive place of employment for family and non-family employees. Their adaptation of top agronomic, marketing, technological and stewardship practices allows all individuals involved with the farm to prosper and grow.

When they acquire new acreage, they can allow these smaller operations to be merged in and compete on a scale that would otherwise not be available to them. The leasing relationship benefits landowners by providing a fair return for their assets. Employees benefit by having an employer that respects and rewards good employee behavior appropriately.

Rosentreter described his role as a manager of managers. The organization involves five management divisions: operations, marketing, crop sales, technology, and capital. Each manager is responsible for his specific area and his decisions are final. Placing responsibility on each manager prevents arguments and waste of time. The organizational handbook includes standard operating procedures for acreage growth, land acquisition and retention, landowner management, mergers and acquisitions, crisis management and emergency action.

Grain crops, mostly corn, are the primary source of revenue. They grow continuous corn because of increased profit potential which is not provided by other grain crops. Superior marketing, along with storage facilities provides significant returns over competitors.

Soil samples and fertilizer applications use the latest technology to achieve optimum yields. They own a 30,000 gallon anhydrous and 1200 ton dry fertilizer and chemical facility.

Their goal is to create a cycle of generating money to pay down debt and build equity. All assets are financed by either debt or equity. Assets are used to generate revenue. Revenue is converted to profit. Profit is used to reduce debt and generate additional equity. Equity enables the operation to purchase assets and reduce the need to borrow money. They maintain $100 per acre in working capital in reserve to operate through the year.

This operation leases land from many land owners mostly on one or two year cash leases. Illinois Family Farms does not buy land since they see land as tying up long term capital. They may lease more and own less machinery. Consolidation is the key to their growth. Operating with 25 full time and 13 part time employees in 2008, the farm is owned by eight people.

Rosentreter emphasized that they do not claim that this structure is right or wrong for agriculture. Many farmers and rural business firms strongly oppose this mega farming approach. Retail, cooperatives, and service firms in rural communities suffer financially from such consolidation because central purchasing of inputs such as machinery, fertilizer and chemicals direct from the manufacturers leave out the small town rural business. Fewer and larger farms results in fewer small town business firms serving the farming community. Such trends could continue in the future that will also affect the rural schools, churches, and community organizations. Δ

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