Managing Tough Times

Income Enhancement Strategies for Farmers

EXPERT REVIEWED

Ken Foster
Mike Boehlje
Agricultural Economics

Purdue University

As farmers, you know that cost reduction is clearly the place to begin when developing survival strategies if you are facing serious financial difficulties. But many of you have adopted intensive production systems and have already reduced costs to the bare minimum over the last several years while prices of inputs continue to rise rapidly. This leaves little room for advice on how to weather financial stress through cost reduction.

However, another effective survival strategy is enhancing your income. You may have ways to generate additional income for debt service, family living expenses, or next year's operating capital. This publication discusses some strategies you might be able to use to enhance revenue.

Because only you, your family, employees, and consultants can know the specific situations on your farms, the advice below is general. Every point will not apply to each individual case. We hope that in some way you and your consultant will find useful information in this publication to help you make some of the decisions necessary to deal with financial stress.

Increase Throughput

Increasing throughput means increasing the revenue generated by a specific asset. For example, equipment purchases tend to be "lumpy"-- you can't buy one-half of a tractor or a feed handling system. You must purchase the whole thing. This means that most farmers have more of some asset than they can fully employ with their farm enterprises. One of the fundamental challenges of farming is increasing throughput. Some examples of opportunities to increase throughput include but are not limited to the following:

- using your machinery to provide custom services,
- renting your storage space,
- using existing feed mixing equipment to mix any specialized rations that you were previously purchasing,
- increasing the capacity utilization of existing feed mixing equipment by mixing for others, and
- custom manure spreading if you have sufficient equipment. (Check on state permitting requirements.)

Notice that all of these examples involve using equipment that you already own or are paying for anyway. The key is to identify existing assets that are not generating as much revenue as they might. However, remember to make sure that the added revenue from these activities exceeds any additional costs incurred.

Consider Off-Farm Income

Many farm families already have at least one family member earning supplemental income away from the farm. If you are not one of these farm families, then this could be the year when it becomes a necessity. An off-farm income source may not only generate a steady source of income for family expenses but also valuable health, retirement, and other benefits. However, making time for family activities is especially important in times of business stress. Beware of sacrificing the well-being of your family for a few more dollars from a low-paying off-farm job.

Evaluate Home-Based Business Opportunities

In some cases you or a family member may have a business or professional skill that provides the basis for a home-based business. Maybe you have accounting or bookkeeping skills that you can use to provide a record keeping service to locally based farm and non-farm businesses. Some farmers have carpentry or craft skills that can generate cash income from making furniture or being part of a building or construction crew. Is there a need for childcare or a preschool business in your community that you have the skills to fulfill? What about a home repair business or using the farm shop to even do machinery and equipment repairs or truck and auto repairs. In many cases, farmers and their family members have unique skills and capacities that might be a source of supplemental income.

However, the key here is to evaluate before you decide to pursue a home-based business opportunity. Contact your local Extension office for information on the pros and cons of home-based businesses that will help you decide if that strategy is right for you and your family.

Liquidate Assets

Inventory your more liquid assets, and consider which ones might be most appropriate for relieving short-term financial stress. This is an area where caution is advised. Selling these assets is an irreversible decision that may not be wise even if it is to pay off debt. Consider the long-term earning potential of these liquid assets before selling, and compare this to the cost of other sources of cash.

For example, if a timber stand is in a stage of profitable growth and the growth rate in value exceeds the cost of refinancing debt, then it is better to leave the trees to grow until a future date. However, if the timber stand is nearing harvest stage, it may be more economical to harvest it this year rather than enter into additional debt. Have your local Extension educator and district forester help you evaluate your timber stand and develop marketing and timber stand improvement plans.

Other examples of potentially liquid assets include developable real estate, grain inventories, financial investments, etc. Again, use extreme caution when deciding whether to liquidate such assets, and compare the longer term costs of earnings losses to the short-term benefits of reduced financial stress.

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REV 1/08