What Do Ag Census Numbers Tell Us
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I was revisiting the 2007 Census of Agriculture data last week and something jumped out at me. The 5600 farms in the over $5 million gross sales category, .25 percent of the total number of farms, were generating 27 percent of total U.S. agricultural output. The average annual sales for this category was about $14.5 million. The thing that struck me was this was the same percentage of total output produced by the 2,079,000 farms in the under $500 thousand sales category, which accounts for 94.5 percent of all farms.

If you drop down to the over $1 million gross sales category, 57,000 farms, 2.6 percent of farms, produced 59 percent of total U.S. output. Ten years ago this category accounted for 42 percent and twenty years ago it was just 28 percent. This year, a 1280 acre midwest corn and soybean farm or a 250 cow dairy could generate gross sales of over $1 million, so it isn’t like these are all mega farms.

I think it is important to recognize that even the biggest farms are small businesses by non-agricultural industry standards. Most money center banks consider their mid-market segment to be businesses with $50 - 500 million annual sales. Although the census won’t release the numbers, I would almost be willing to bet that there aren’t 100 farms in the U.S. with sales over $100 million.

Any time I’ve written about these trends, I usually hear from someone that I’m just promoting big farms. That’s not my intent. What I do want is for people to be realistic and not in denial or resisting the need to be more proactive in anticipating and adapting to change.

That said, I think the trends indicate that the traditional single family farms in the $500 thousand - $1 million sales group are going to be under increasing pressure to compete in a market that rewards economies of scale, more intensive asset utilization and higher levels of specialized management expertise.

It’s not a doomsday scenario. It just means that I believe these farms that are going to succeed without getting bigger are going to fall into one or more of the following four areas:

• Those that generate off-farm income through either off-farm employment or other business enterprises
• Those that can develop niche market opportunities in differentiated higher margins enterprises.
• Those that can compete by being exceptional managers and being able to react more quickly than their larger competitors.
• Those that are able to form alliances with other producers in ways that capture economies of scale through pooling or sharing arrangements.