

Custom Farming – A Share of the Crop

In Iowa, 2-3% of all acres in the state are custom farmed (AgDM File C2-15, [Survey of Iowa Leasing Practices](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-15.pdf), www.extension.iastate.edu/agdm/wholefarm/pdf/c2-15.pdf). This practice has given rise to new ways of developing custom agreements. Traditionally, a custom farming agreement involves the landowner making a fixed cash payment to the custom operator in return for doing various field operations. This is either contracted individually on each field operation or in total for all growing and harvesting operations. Typical custom rates are provided in AgDM File A3-10, [Iowa Farm Custom Rate Survey](http://www.extension.iastate.edu/agdm/crops/pdf/a3-10.pdf), www.extension.iastate.edu/agdm/crops/pdf/a3-10.pdf. The AgDM File A3-15, [Custom Farming: An Alternative to Leasing](http://www.extension.iastate.edu/agdm/crops/pdf/a3-15.pdf), www.extension.iastate.edu/agdm/crops/pdf/a3-15.pdf, provides guidelines for developing a custom agreement.

Custom Farming Disadvantages

There may be disadvantages to custom farming. Timeliness, especially during planting and harvesting, is important and landowners can become concerned when the custom operations are not done in a timely manner. Conversely, custom operators may view the fixed payments they receive for their efforts as little more than wages, giving them little incentive to do a good job.

Custom farming involves a high cash outlay by the landowner. Not only are the seed, fertilizer, and other expenses paid in cash, but all field operations are also converted to fixed cash payments. The cash outlay per acre, including land payments, can easily reach \$400-\$500 per acre.

Also, custom farming tends to be high risk for the landowner. All costs are fixed but the returns (yield and selling price) are extremely variable.



Share of the Crop

Many of these disadvantages can be offset if an arrangement is developed where the custom operator receives a share of the crop (including a share of the government payments) instead of a fixed cash payment. With this arrangement, the custom operator has a vested interest in the crop. In other words, the custom operator's income is affected by how well they do the field operations. If field operations are done properly and in a timely manner, crop yields are higher, which increases the returns of both the landowner and custom operator.

Giving the operator a share of the crop in lieu of a fixed cash payment reduces the owner's cash investment in the growing crop. It also reduces the risk exposure of the landowner. If crop yields or prices are low, the amount going to the custom operator is reduced.

Computing a Fair Division

The challenge of this type of arrangement is computing an equitable division of the crop between landowner and operator. The procedure shown in Table 1 can be used for this purpose. The cost or value of each party's contributions for growing, harvesting and marketing the crop is listed. The crop is then divided in the

same proportion as the value of each party's contributions. An example is used to illustrate the procedure.

First, list the value of all of the contributions made by the landowner, such as seed, fertilizer, pesticides and miscellaneous costs. A management fee is added to cover the cost of selecting, ordering, and delivering the production inputs. The fee is sometimes computed as 10% of the production inputs (seed, fertilizer, etc.) A land charge for the year can be based on local cash rental rates.

The custom operator's contribution of machinery and labor for growing and harvesting the crop can be estimated by using custom rates for each individual operation or the whole crop from AgDM File A3-10, [Iowa Farm Custom Rate Survey](http://www.extension.iastate.edu/agdm/crops/pdf/a3-10.pdf), www.extension.iastate.edu/agdm/crops/pdf/a3-10.pdf. An additional hauling charge (custom) may be included for delivering the grain to either a nearby market or farm storage.

The custom operator's share of the crop is computed by dividing the value of their contribution by the combined contribution of the landowner and operator. In Table 1, the custom operator's share of the costs for producing an acre of corn following soybeans is \$132. The total cost is \$638. So, the custom operator's share of the corn crop is 21% ($\$132 / \638). The landowner receives 79% ($\$506 / \638) of the crop. Also, the custom operator should receive the same percentage (i.e. 21%) of any government program payments.

If the contributions vary from those outlined above, the distribution of the crop between the custom operator and the landowner will change. Generally, the more productive the land, the lower the operator's share will be.

Management

The landowner may do the selecting, ordering, and delivering of the production inputs. So a fee would be included in the landowner's contribution. However, there are situations where the custom operator is responsible for these tasks.

So, part or all of the management charge may be listed under the customer operator rather than the landowner. The custom operator's costs would be refigured and they would receive a larger share of the crop (as shown in Table 1).

There may be an advantage to having these management tasks performed by the custom operator. For example, the landowner may be eligible for volume discounts if the input purchases are combined with the operator's input purchases on their operation. Also, less coordination is needed between the custom operator and the landowner. The custom operator is assured that the production inputs will be available when they are ready to do the field operations and have the freedom to choose the combinations that they prefer.

Crop Insurance

The cost of crop insurance is not included in the analysis. It is assumed that each party will insure their share of the crop separately.

Corn Drying

If each party is responsible for drying their own share of the corn crop, the cost of corn drying is not included in the arrangement. However, in some situations, the corn is dried on the farm. For example, assume that the corn is dried in the landowner's dryer. Here the custom operator would pay the landowner (i.e. custom charge) for drying their share of the crop. As an alternative, the operator may oversee the drying process in exchange for using the landowner's drying facilities and the dryer fuel and electricity costs are divided in the same proportion as the crop is divided.

Farm Storage

Sometimes the grain is stored on the farm. In this situation, the operator may pay the owner a fee for storing their share of the grain. An additional arrangement for hauling the grain to market may be needed. See AgDM File A3-10, [Iowa Farm Custom Rate Survey](http://www.extension.iastate.edu/agdm/crops/pdf/a3-10.pdf), www.extension.iastate.edu/agdm/crops/pdf/a3-10.pdf, or

[Farm Building Rental Rate Survey](https://aglease101.org/wp-content/uploads/2020/10/NCFMEC-07.pdf), North Central Farm Management Extension Committee, <https://aglease101.org/wp-content/uploads/2020/10/NCFMEC-07.pdf>.

The division of the grain may occur in the field or after drying. If all the grain goes to market, the division of the grain can be done when the grain is weighed.

Use Decision Tool A3-13, [Determining the Custom Operator's Share of the Crop](http://www.extension.iastate.edu/agdm/crops/xls/a3-13customshare.xlsx), www.extension.iastate.edu/agdm/crops/xls/a3-13customshare.xlsx, to enter landowner and custom operator costs to determine an equitable share of the crop for each party.

Table 1. Determining the custom operator's share of the crop (example)

Landowner Provides Management			
Landowner Contributions	Corn on soybeans	Corn on corn	Soybeans
Seed	\$98	\$98	\$50
Fertilizer	110	125	45
Herbicide	40	40	49
Insecticide	0	\$18	0
Miscellaneous	10	10	10
Management ^{1/}	26	29	15
Land ^{2/}	<u>222</u>	<u>222</u>	<u>222</u>
Total Landowner Contributions	\$506	\$542	\$391
Custom Operator Contributions			
Custom Growing and Harvesting	\$127	\$127	\$115
Miscellaneous	5	5	5
Management ^{1/}	<u>0</u>	<u>0</u>	<u>0</u>
Total Custom Operator Contributions	\$132	\$132	\$120
Total Contributions	\$638	\$674	\$511
Percent of Crop for Custom Operator ^{3/}	21%	20%	23%
Custom Operator Provides Management			
Landowner Contributions	\$480	\$513	\$376
Custom Operator Contributions	\$158	\$161	\$135
Total Contributions	\$638	\$674	\$511
Percent of Crop for Custom Operator ^{3/}	25%	24%	26%

^{1/} Computed as 10% of seed, fertilizer, herbicides, etc.

^{2/} Cash rent equivalent

^{3/} Custom Operator Contribution divided by the Total Contribution

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