
Livestock Production - Specialize While Retaining Income Diversification

A strategic decision facing modern farm managers is whether to specialize or diversify their farming operation. Specialization allows you to focus your management skills on one major enterprise. Some would argue that you need to specialize to be efficient and keep up on the latest production technology. Conversely, proponents of diversification reply that you need to diversify your farming operation in order to spread your income and price risk over two or more enterprises, an important concept in today's high risk agriculture.

Because there are advantages to both specialization and diversification, the solution may be to do both. We can accomplish this by specializing labor and management while diversifying income sources. Some pork producers achieve this by having a custom operator produce their crops. This allows them to specialize their labor and management on hog production because the custom operator provides the labor and some of the day-to-day management for the crop enterprises. However, these pork producers are diversifying income sources because they receive the income from both the hogs and the crops.

Below are factors you may want to consider in making this decision.

Advantages

- 1) The major advantage of specialization is the ability to focus your labor and management on just one enterprise (e.g. the swine enterprise). This allows you to improve the efficiency and cost effectiveness of this enterprise. The pigs don't suffer from planter or combine disease.
- 2) You free-up capital from the sale of the crop machinery that can be invested in the swine operation. However, selling machinery will often trigger significant income tax liability.

- 3) If you have a small land base and cannot take advantage of economies of size, it may actually cost you less to hire a custom operator than grow crops yourself.
- 4) By hiring a custom operator, you may gain access to new production technology and the management skills of someone who specializes in crop production. Your yields may actually increase.
- 5) You may be eligible for volume discounts on seed, pesticides, fertilizer and other inputs by combining your input purchases with those of the custom operator.
- 6) When you hire a custom operator, you also hire their labor. In fact, with a custom arrangement, you only hire as much labor as is needed to get the job done. So you don't have the problem of seasonal peaks of labor demand. Any labor that is hired is only for the swine operation where labor requirements are less variable and more stable and predictable.
- 7) Because you spend more time on the hog operation, you may actually reduce your need for hired labor. Conversely, a custom operator may allow you to expand your hog operation without increasing hired labor.

Disadvantages

- 1) You face the traditional custom farming concerns of "Is the custom operator dependable?" and "Will the custom operator do things in a timely and conscientious manner?"
- 2) Custom farming could increase your risk exposure. Crop labor and machinery costs are converted to annual cash costs, increasing your cash outlays per year. However, custom farming costs can be predicted with a high degree of certainty. Also, your risk exposure can be reduced by giving the custom operator a share of the crop in lieu of a fixed cash payment.

- 3) Pork producers often say that field work gives them a break from the monotony of working with hogs all of the time. However, to rectify this, you can arrange to work part-time for the custom operator on your own farm. You may find that the custom operator's machinery is more fun to operate than your own.
- 4) If you rent land, your landowner(s) may object. They may say, "If the custom operator is going to farm the land, maybe I should rent it to them."
- 5) Possibly the biggest disadvantage is how you may be viewed by your neighbors. Swine producers who have used this strategy tell me that their neighbors don't consider them to be a "real" farmer anymore because they aren't out in the field driving their equipment around.

Partial Strategy

You may follow a partial strategy by selling "**big ticket**" items like a combine and large tractor, but continue to do the time-sensitive operations like planting, spraying, and cultivating. This allows you to substantially reduce your capital and labor investment while maintaining control over the critical parts of the crop operation.

Decision Criterion

The objective is to increase the overall income from the farm while maintaining the risk management features of diversification. The income from the hog operation should increase because of the increased investments of capital, labor, and management. Also, due to the reasons cited above, the decline in crop income may be small. In fact, crop income may not drop at all, or actually increase. The key is to find the right custom operator. However, with the pressure on grain farmers to expand their land base, your chances should be good.

Only careful year-end analysis of the performance of the whole farm and individual enterprises will determine if you are successful. So you may want to implement this strategy on a "**trial**" basis. The first year you may hire a custom operator to do only a portion of the operations. The second year you may hire all of the operations done. Also, you may wait to sell your crop machinery until you are sure that the arrangement will work.

Summary

This is one method of specializing your management skills while continuing to diversify your income sources. Although other methods may fit your situation better, specializing while diversifying is an option you may want to consider.