Ag Decision Maker

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Growth Strategies by Type of Farm

Traditionally, Midwestern agriculture farming operations have been relatively standardized with each operation made up of a land base producing commodity crops and feed that was fed to commodity livestock on the farm. However, modern agriculture has seen the proliferation of different types of farms. The four prevalent types are outlined below. Each type of farm needs to follow a different strategy to be successful. Below is the typical growth strategy for each of four different types of farm, along with how operations are organized and income generated and what resources are required.

A discussion of other Farm Business Strategies in addition to the growth strategy is available.

1) **Commodity Farms** - These are traditional farms that sell crops and livestock into commodity markets.

   - **Growth Strategy – *Capacity Expansion*** Commodity farms expand horizontally with more acres, more head of livestock, etc. The premise is to accept the low margins typical of commodity production and maximize returns by increasing the number of units and spreading fixed costs over more units.
   - **Operations Organization – *Specialization*** A key to the success of capacity expansion is to specialize by having just a few large scale enterprises so that management is just focused on a few enterprises.
   - **Income Sources – *Few*** – The income sources consist of a small number of enterprises.
   - **Resource Requirements – *Capital Intensive*** Commodity production requires large capital investments in land, machinery and other assets. So access to capital is critical. The balance sheet is built on land and machinery.

2) **Value-added Processing/Commodity Farms** These are traditional commodity farms that are involved past the farm gate by investing in the processing of agricultural commodities. An example is a corn farmer investing in an ethanol plant.

   - **Growth Strategy – *Integration*** – The growth strategy of commodity farms involved in value-added processing is a vertical strategy moving up the supply chain past the farm gate into processing. Capital is invested in processing rather than the expansion of commodity production. This growth strategy is essentially an investment decision. There is little change in how the farm business is operated.
   - **Operations Organization – *Specialization*** – Because this is a commodity business and the processing aspect is just an investment decision, operations are usually specialized in just a few enterprises.
   - **Income Sources – *Multiple*** – Although the farming operation consists of just a few enterprises, there are multiple income sources because the business is involved in both production and processing.
   - **Resource Requirements – *Capital Intensive*** Because this is essentially an investment decision in processing, the growth strategy is very capital intensive. The balance sheet is built on land and value-added processing.

3) **Specialty Product Farms** – These are farms that produce specialty products for niche markets. Examples include organic dairy, natural pork, grass-fed beef, organic soybeans, etc. These farms are generally not involved past the farm gate.

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- **Growth Strategy – *Increase Profit Margin*** Instead of growing by increasing units of production, the focus of this strategy is to grow by producing higher value crops and livestock with a larger profit margin.
- **Operations Organization – *Specialization*** Specialty product farms often specialize in just a few enterprises so operations are also specialized.
- **Income Sources – *Few*** – The income sources consist of a small number of enterprises.
- **Resource Requirements – *Management Intensive*** – Because of the management skills involved in specialty production, specialty product farms tend to be management intensive. Capital is less important than in commodity farms.

4) Direct Marketing Farms – These farm produce either traditional or specialty products. They integrate forward into the processing and marketing of these products. Examples are organic dairy farms with on-farm processing that sell milk as a local branded product to consumers, and grass-fed beef farms with co-owned processing that sell branded meat products through high-end retailers.

- **Growth Strategy – *Increase Profit Margin*** Profit margin is increased by participating in activities past the farm gate.
- **Operations Organization – *Diversification*** Although one or just a few products are produced, the operation is quite diverse because the farm business is involved in processing and marketing. The operation strategy tends to cover many activities.
- **Income Sources – *Multiple*** – Although just a few products are produced, income is generated by participating in multiple levels of the supply chain (production, processing, marketing.)
- **Resource Requirements – *Management Intensive*** – Because of the management skills needed for production, processing and marketing, these farms tend to be management intensive. Capital is less important than in commodity farms.