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Looking to cut costs and increase profits? Try the five per cent rule

Increasing yields and your sale price by five per cent while cutting costs by the same amount can double your profit

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Gaining more efficiency in "labour, power, and machinery" is the key to bigger profits, says Saskatchewan farmer Kristjan Hebert. *Photo: Thinkstock*

In the sport of baseball, the difference between superstar Derek Jeter and a squad player is simply hitting one more ball every 20 times at bat — a five per cent improvement done "over and over and over again."

Well, that's fine for baseball, but what does five per cent look like in farming?

"If I told you that five per cent on a farm is growing two extra bushels of canola, selling it at 50 cents higher, and tightening up your costs by $17 an acre, that seems pretty attainable," said Kristjan Hebert, managing partner of Hebert Grain Ventures.

The goal for most farmers in Western Canada, he said, is a 40-bushel-per-acre canola crop at around $10 a bushel, with $180 in inputs, and $170 an acre in fixed costs. "That gives us $350 break-evens and a net income of $50."

Five per cent changes to those numbers are "simple."

“If you find a way to have two more bushels, make 50 more cents a bushel, and tighten up your costs by $17 an acre, you’re making $108.50 while your neighbour is making $50,” Hebert said at the Farming Smarter conference last month.

Producers can find plenty of ways to trim their costs — but they have to be smart about it, said Hebert. The first thing they might be tempted to cut are the inputs, but that’s a mistake.

“Decreasing fertilizer, seed, and chemical may decrease your cost per acre, but it increases your cost per bushel because your yield goes down,” he said.

“I’m talking about good, solid agronomy — right time, right place, right source. There’s a direct correlation between the proper use of inputs and gross revenue. For every $1 we put into inputs, we get $1.75 back in revenue, so 75 cents goes straight to margins.”

On Hebert’s farm in Moosomin, Sask., they “figure out the yield target and work backwards.” And they never skimp on seed treatments.

“Fungicides and seed treatments are two of the largest things we’ve seen huge incremental productivity on.”

Fixed costs

Producers also need to start looking closer at their fixed costs — “everything that’s not seed, fertilizer, and chemicals.” From 2007 to 2013, average fixed costs went from $115 an acre to $182.

“That means we need to grow more grain just to break even,” said Hebert. “We need to find a way to make more money, and we really, really need to focus on fixed costs.”

In order to chip away at fixed costs, producers need to “focus on efficiency in labour, power, and machinery.”

For Hebert, hiring good people is a good investment.

“We like to say HR is a problem in agriculture — we can’t find good people. But is our problem that we can’t get good people, or is our problem that we’re cheap?

“I know some will say that they can’t afford $34 an hour in wages. But I’d make the argument that my $20-an-hour guy costs me $34 — it’s just $20 in wages and $14 in idiocy and repairs.”

Things like sectional control and 24-hour shifts on the machinery can save “$6 or $7 an acre,” and it pays to pay attention to the combine settings.

“You can throw out two bushels an acre just by not paying attention to your combines every day.”

But the biggest change producers can make is in their farm financial statements.

“If you’re not on accrual statements, go to accrual statements,” said Hebert. “Accrual statements take two or three years to get your head around, but once you have your head around them, it literally gives you a competitive edge over everybody else who’s not on them.”

Cash statements run two years behind, he said.

“You really have no idea what’s going on in your business.”

In accrual statements, on the other hand, income and expenses are recorded in real time, giving producers a true up-to-date idea of “what it takes to grow the crop, what it takes to get the job done, and what it takes to be there.”

“The reason accrual is important is you must manage margins,” said Hebert, adding people tend to overstate revenue and understate expenses.

“If you have five years of accrual statements to compare your budget to, it’s really hard to lie.”

But ultimately, what works for one farmer may not work for the neighbour down the road. Producers need to find a way to make the five per cent rule work on their own operations, said Hebert.

“There’s no right way or wrong way. Everyone has their own way to try and maximize profit and productivity.”