THE SAMUEL ROBERTS NOBLE FOUNDATION

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Resource management optimizes land use and profit potential

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It has been a long time since profits from agricultural activities have justified the price of land. Escalated prices are often attributed to speculation, but with a fixed land resource and a growing population, the price of land is likely to continue to increase over the coming decades.

For many agricultural producers, land is the highest valued asset on their balance sheet. Therefore, it is very important to maintain the viability and integrity of the land from a value standpoint, while still achieving the production, landscape and quality-of-life goals of the owner.

With the impact of the "The Great Recession" that began in December 2007, many agricultural producers are looking for ways to improve their bottom line. There are two ways to do so: cut costs or increase revenue. Neither one is typically easy to do for an agricultural producer. Even though farmers and ranchers are very resourceful people, much of what they produce is sold as a commodity. Thus, producers typically receive a non-differentiated price while costs are already kept at a minimum.

When I am trying to help an agricultural producer increase profitability, I first start with their largest expense category. In most cases, this is the cost of land. While refinancing a land note at a lower rate is a possibility, there is a different strategy available to help the bottom line. Namely, one should consider production activities that can provide economic benefits while minimally impacting other agricultural enterprises conducted on the land.

It's often said that a combination of production activities is better from both risk and profit standpoints. Some alternative production activities, such as developing wildlife hunting leases, establishing agritourism, leasing pecan harvest of productive native trees, establishing a wind energy or mineral lease, and developing novel marketing plans for produced goods, have little additional cost associated with them.

Other activities to capitalize on existing land resources, but which would require additional capital include improved pecan orchards, production of meat goats, and production of fruits or vegetables. While additional capital is required, these activities are more of a complement to the overall operation than a substitute for existing activities.

If one of these ventures is being considered, it is important to evaluate the operation's ability to manage the new endeavor. Additionally, it is important to know how much additional time and paperwork would be necessary to see the venture to completion. Brainstorm with a consultant about other enterprises that would work well with your current operation and how to turn produced goods into differentiated products that demand a premium price.

It is important to remember that your land is valued based on the perceived future value of its optimal earning possibilities. It is fine to use the land for less than its highest possible combination of activities, but money is being left on the table, or in this case, in the soil. ■