

Bigger gear, less costs, better farmers

By Andrew Burchett (US Farm Journal) for The Australian Cottongrower

LEADING EDGE

At age 49, Darrell DeBoer farmed 400 hectares of soybeans, corn, and wheat with 20-year-old equipment in America's rich Midwest. A year later, he added 285 hectares, two late-model combines, four skilled workers, a new sprayer, 24-row planter and 12.6 metre air seeder, and a new grain system.

How did he do that? By becoming a team player. Darrell joined four other farmers who had previously decided to cast their lots together by making joint use of larger, newer machinery. Their individual crop operations ranged from 240 hectares to 530 hectares, scattered several miles apart around Corsica, South Dakota.

"It started three or four years ago," says Russell Metzger, one of the four original team members. Russell and the other three farmers, Lowell Bye, Don Oakland and Alan Scholten, mulled over the idea of sharing larger equipment with the goal of cutting costs.

Good timing

In the spring of 2000, a Monsanto–John Deere lease promotion for no-till planting equipment turned ideas into action. "We only had a week to decide on the three-year lease for a 24-row no-till planter and 12.6 metre air seeder," recalls Lowell.

The four farmers met with a local lawyer and formed Frontier Leasing, LLC. This allows them to lease and own the machinery they use together without combining individual farming businesses. As customers, each pays a percentage of costs based on crop acreage at the time of joining. Payments are calculated to cover leasing, owning, operating and maintenance costs, leaving little profit for the company. Taxes on leftover profit are paid by each shareholder.

The dividend is machinery cost savings to each individual farm operation. This legal step was necessary, because South Dakota's state law prohibits unrelated farmers from farming together. Once the legal framework was in place, it snowballed.



Upgrading to bigger, more efficient machinery such as the 4710 sprayer and 1860 air cart has allowed Frontier Leasing to rent more land and farm it better.

Machinery makeover

Sharing planting equipment prompted more than cooperation. For one thing, the leased planter has half metre (20 inch) rows. That meant everyone switched 100 per cent to half metre corn. Harvest equipment also had to match row spacing and handle the acreage. For combines, Frontier Leasing acquired two John Deere 9650 straw walker machines through a rollover program. Two corn heads and two flex heads were also purchased.

The four founders of Frontier Leasing had a combined crop acreage of 1620 hectares. In 2000, their first season together, they faced harvesting as much as 786,000 kg of corn a day, says Don Oakland. That takes dumping and drying capacity at a central location. Individual storage facilities were scattered in a radius of several miles. Waiting in line to dump grain at the co-op in town was out of the question.

Frontier Leasing worked with the Corsica Development Corporation to buy two city blocks slated for an industrial park. In exchange for developing the streets, they got a better price on the land. Frontier Leasing built a 60,000 bushel bin, a 25,000 bushel wet holding bin, a 1000 bushel per hour continuous flow dryer, a 500 bushel dump pit, a control shed and scales.

"Putting up the bin site was the point at which it became a big commitment," says Don.

Entwining one's fate with that of other farmers is a little scary, but the Corsica farmers had some realities in common that made it appealing: They were all about 45 years old, farmed alone and had wives who worked off the farm. "If we stayed the way we were, we didn't know if we would be in business in five years," says Alan Scholten.

If an uncertain future was the stick that drove them together, getting to use new machinery and technology was the carrot. It also put the four in position to grow. Recruiting Darrell DeBoer as a fifth member added his 400 hectares and unparalleled mechanical skills, making them more self-sufficient at maintaining the machinery.

In 2001 a 1380 hectare block of land with contiguous fields and some storage facilities came up for rent. Through a combined offer, the farmers each leased a proportionate share of the ground. That meant more bushels at harvest, so three members each put up another 60,000 bushel bin at the site in town. The company



financed two more.

Total cost for the grain-handling facility ran to \$US500,000. While the cost of investing in equipment together was no more than that of maintaining separate fleets. The financing was secured by Frontier Leasing, with each shareholder guaranteeing the loan. "Machinery is fairly liquid, making it easy for someone to move on, but the storage facility really forces us to commit ourselves to making it work," says Alan.

Further additions to the Frontier Leasing fleet included a John Deere 4710 sprayer leased in 2001 a crew cab pickup and a service truck with a crane.

More shared machinery means more saving. "Our whole operation is driven by cost per acre," says Alan. "The machinery cost has gone down, though not always as much as what we projected."

"My combine costs were \$US15 an acre before," says Russell Metzger. "On paper, we thought we could get it to \$US8.50 to \$US9, but now it's around \$US10."

Don Oakland, who runs the sprayer most of the time, covered 5670 hectares with it in 2001. "It cost a third to less than half of custom rates, plus you get the timeliness of doing it yourself. With the big sprayer I'll cover 400 hectares in a day."

Input costs are a new ballgame, too. Combining seed orders earns discounts of up to 28 per cent, says Alan. Chemical cost savings are there, too, but more important is the clout of a large account in getting service. "There's no problem getting compensated when a product doesn't work," says Alan.

All of the savings haven't made it to bottom lines yet, because rapid growth requires cash. "Right now all the savings help us cope with the growing pains," says Darrell. In two years, the combined size of the separate farming operations reached 3440 hectares. That's part of the plan. "If we don't grow, we go backward," says Lowell.

Growth continues this year with the lease of another 200 hectares. There is a limit says Lowell. "We'd need more machinery to grow a lot and then we'd need employees." Until they're ready for that, the five farmers see 4000 hectares as a good place to plateau.

Neighbourly outlook

Not everyone in the area views the sudden growth as progress. Coffee shop talk was rampant at first, with speculation about land rent going up and neighbours being run out of business. "We're not the largest operation around, but stand out because we weren't already part of the scenery," says Darrell. Russell says the group doesn't plan to take anyone's land away.

Perhaps more important than what other people think is how the five independent operators make it all work. "We don't nit-pick about things," says Lowell. That doesn't mean there's no formal organisation and planning, though.

The company ownership is by shares based on the original acreage farmed by each member. Equity ranges from 12 per cent to 27 per cent. The company bills each farmer for a share of costs for equipment and the grain storage facility. The corporation doesn't own tractors — anyone who uses a tractor to pull the company's equipment bills for it.

Although a lot of extra equipment was sold, individual farmers still own disks, field cultivators, grain carts, a harrow and a 12-row planter. Owners use these tools as needed, but don't bill the company.

Working together also leads to consolidation of services, such as the hiring of a crop consultant. Marketing is handled by Midwest Grain Marketing. Everyone has his own account. Grain in shared bins is credited to each farmer as it comes out of the field.

Some of the most important plans in place prepare for the worst. "We do a buyout agreement annually, says Lowell. A net worth of Frontier Leasing is established and it's agreed that in the event someone dies or decides to get out for any number of reasons, his equity share will be purchased by the others. To guard against the cash demand a sudden death could impose, shareholders purchased life insurance policies on each other.

It's not the right way for everyone, but teamwork makes the tough days easier, says Lowell. "If you have a really nasty job to do, it makes it a lot better with five guys working on it." So far, there are no regrets — well, maybe one. "I wish I was 30 years younger and just getting into this," says Darrell.

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