

★ ★ ★ ★ ★ ★ **CROP** ★ ★ ★ ★ ★ ★ **DIVERSIFICATION:**


★ ★ ★ **FINDING THE RIGHT MIX FOR YOUR FARM**



AGAMERICA
LENDING

CROP DIVERSIFICATION:

Finding the right mix for your farm



For decades, farmers have understood the importance of changing the crops they plant periodically for soil health. This crop rotation is just part of being a farmer.

But farmers who are just as focused on the economic side of the business as they are on the agronomic side understand the importance of changing the crops they plant periodically for financial health, too. This crop diversification is increasingly part of being a farmer, and it raises many questions for farmers, including:

When do I decide the time is right to move on from a crop?

How do I decide which new crop to plant?

How much of my farm should be dedicated to new crops?

How much time should I give to evaluate a new crop's success?

About the Farmers

Nearly 500 farmers completed the survey, and these growers come from all over the country. Those who took the survey have spent more than their fair share of time in the field – the average age of a respondent was 57 ½ years old.

The survey invitation was sent to fruit, vegetable, citrus and cotton growers, and the sheer numbers of those growers certainly influenced the mix of responses. Vegetables represent the most popular crop category for these growers (grown by more than 54% of the respondents) while fruits were nearly as popular (53%). We'll also look closely at the responses from those growers producing cotton (16%), nuts (14%) and citrus (6%) to discern their plans for 2016 and beyond, but these crops simply aren't as widely grown today.

Overall, these growers represent a wide range of operations. The average farm will have 643 acres in production in 2016.

500 farmers surveyed...

54%
Vegetable growers

53%
Fruit growers

Avg of
643 Acres in Production in 2016



FINDING THE RIGHT MIX FOR YOUR FARM

AgAmerica is committed to helping farmers understand their options for harvesting the best results from their farm every year, which is why we surveyed a broad range of growers in February 2016 to gain insights regarding how they decide which crops to plant every year and which crops not to plant.

For many growers, changing crops from year to year or every two years is standard operating procedure to bolster soil health. But other challenges lurk and force an increasing number of farmers to change their crop plans.

Crop diversification means making challenging decisions about which crops offer a profitable future and which need to be replaced. “You need to change often to stay ahead of the competition and to satisfy the marketplace,” noted a fruit grower with upwards of 100 acres. He notes having added multiple new crops in recent years and continues looking for crops that are unique to his market but that fit with other crops on his farm.

“Climate conditions in our area just call for greater diversity in terms of what we grow,” shared an older grower adding butternuts and figs to his farm this year. “Our climate extremes mean some crops will fail every year, so we need to plant a range of crops to ensure having something to sell.”

The challenges facing agriculture of late can be seen in growers’ approach to the crops they grow. Slightly more than half of the respondents to this survey report they have diversified their farms by adding at least one new crop in the last 36 months. And many farmers have been even more aggressive – 15% report adding two new crops while another 15% say they’ve added three or more new crops. And while 36% of the growers say they have no plans to diversify, another 12% report they plan to make changes to their farms in 2016. This clearly goes beyond traditional crop rotation.

“Moderately diversified operators who focus on their core strengths make for the strongest loan candidates,” explained Bryce Philpot, AgAmerica’s SVP of Operations and Finance. “If you’re too extreme, are you really the expert at anything?”

Growers identified 28 different crops being added to their farms this year. The size of the market for corn, peppers and tomatoes makes them the most popular new crops for 2016, but none of those big three is being added by even 10% of the respondents. Rather, growers clearly seek a variety of different crops that can deliver profit to the farm. Consider that beets, sunflowers, hops, okra, persimmons, and gourds are all going in the ground on new farms this year.

Other farmers plan changes they hope will help address another challenge. “Our changes

★ FARM FACT ★

Farmers under the age of 55 tend to be much more focused on maximizing the price they can get for their crops. Nearly 60% of these farmers said they stopped growing a particular crop due to falling prices while falling prices was only an issue for 37% of the farmers over 55.



Top 4 reasons for choosing to add a particular crop this year

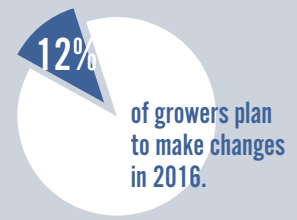
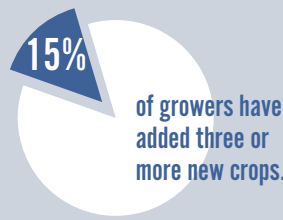
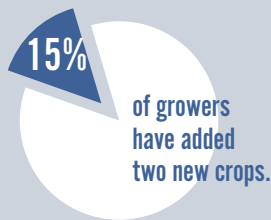
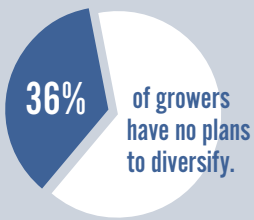
Market demand is strong for these crops in our area	49.1%
This crop complements the other crops we grow	43.4%
Uniqueness of that crop in our area/market	35.9%
These crops are simple to produce / comfortability	17.0%

“REGULATIONS CHANGE, THE WEATHER CHANGES, MARKETS CHANGE. WE HAVE TO CHANGE, TOO.”



Top 4 reasons for diversifying away from a particular crop

- 1 The price for which I can sell these crops has dropped too low. (44.1%)
- 2 Demand is not high enough for these crops. (33.9%)
- 3 Growing these crops is too labor intensive. (20.3%)
- 4 Input costs for these crops have become too high. (16.1%)



are all about the lack of labor and the low productivity of labor,” noted one fruit grower with more than 2,500 acres, pointing to a problem shared by many of the survey respondents planning for new crops in 2016. This grower is taking out grapes in favor of row crops that are harvested mechanically and require less manual labor.

For some growers, pesticide regulation has limited their ability to control destructive pests, so they need to move away from threatened crops. A number of growers cited the removal of Transform from the market and resulting challenges controlling aphids on sugarcane as the driving force behind their upcoming changes.

The list of crops growers are moving away from in 2016 is nearly as lengthy, and it’s topped by squash, wheat and grain sorghum.

For most farmers, changing their planting plans to reflect changing markets and evolving growing conditions is just part of being a farmer. In fact, more than 71% of the growers report that the degree to which they’re changing their operation for 2016 is consistent with how they have historically managed the farm. Of the remaining growers, roughly 18% of them report they are changing crops more often of late, while 11% report changing less often.

Generally speaking, the growers avoid wide-scale changes in just one year. Nearly two-thirds of them who plan to add a new crop in 2016 report they will change less than 10% of their total production. “We’re not going to stop growing any crops this year, but we are going to add a couple of rows to trial a new crop that we may plant more of in the future,” shared another farmer. Only 9.5% of the respondents note they will change more than 30% of their acreage this year.

One could understandably assume growers switching out of a crop were doing so for financial reasons, and that is true in many cases. (Interestingly enough, we evaluated the nearly 500 responses in a number of ways, including looking at responses according to the number of acres planted by each grower. Unlike with most surveys, this research found tremendous consistency in the results, regardless

of the size of the farm.) In fact, the inability to sell their harvest at a high enough price is the No. 1 factor influencing many growers’ decision to move away from a crop. But growers offered a surprisingly broad range of reasons for their decision (see table). Chief among them

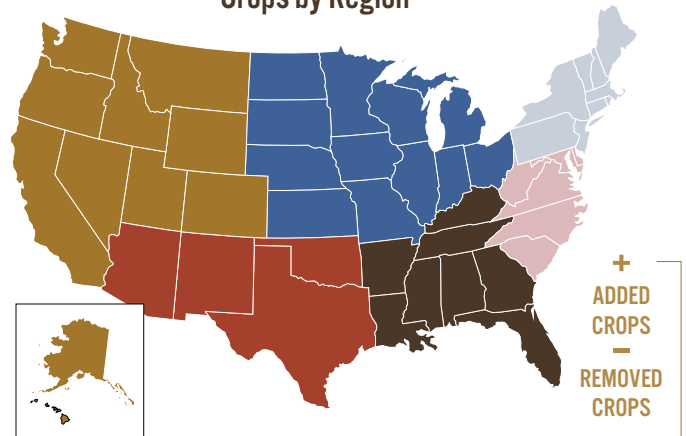
was economic concerns (prices have dropped too low, input costs have climbed too high, etc.), but labor requirements, climatic challenges and disease pressures made growing certain crops seem unsustainable to many growers.

Not surprisingly, then, strong market demand was the primary factor growers pointed to when explaining why they



Crop diversification will occur more gradually on smaller farms in 2016. More than 45% of farms with 25 or more acres will change crops on at least 10% of their acreage in 2016. Less than 21% of farms with less than 25 acres will change that much.

5 Commonly Added and Removed Crops by Region



+ WEST -	
Beans	Corn
Nuts	Wheat
Grapes	Grapes
Tomatoes	Squash
Herbs	

+ MIDWEST -	
Tomatoes	Squash
Beans	Bell Peppers
Pumpkins	Carrots
Sweet Corn	Peas
Annual Flowers	Cabbage

+ SOUTH -	
Alfalfa	Corn
Corn	Grain/Sorghum
Cotton	Milo
Pumpkins	Cotton
Spinach	

+ MID-ATLANTIC -	
Peppers	Soybeans
Corn	Sweet Potatoes
Sweet Potatoes	Peppers
Cauliflower	Tomatoes
Tomatoes	Pumpkins

+ NORTHEAST -	
Sweet Potatoes	Apples
Beets	Pumpkins
Lettuce	Berries
Berries	Beets
Tomatoes	

+ SOUTHEAST -	
Peppers	Grain/Sorghum
Muscadine Grapes	Squash
Peas	Cauliflower
Persimmons	Figs
Potatoes	Soybeans

“YOU NEED TO CHANGE OFTEN TO STAY AHEAD OF THE COMPETITION AND TO SATISFY THE MARKETPLACE.”

selected the new crops they're planting this year. But these growers clearly also looked to add crops that complement other crops they'll produce this year as well as crops that aren't as widely grown in their area.

One older fruit grower with about 75 acres in Oregon is very honest about how he decides which new crops warrant a shot in his farm: he looks at what is happening around him. "I follow the lead of other growers in my immediate area, on a modest scale," he said. "I respect their insights."

Farmers are used to dealing with challenges, so they're not going to change crops from one year to the next just because they have one difficult season. And while most of these growers note they're looking for healthier revenues as a result of their change, many also hope to accomplish bigger-picture goals with their move. For example, nearly 35% of the respondents made this change to diversify

their portfolio while another 33% report they did so to protect their profitability.

The key question all of these growers who add new crops in 2016 will have to answer is whether or not they made the right decision. And there's no obvious consensus regarding how soon they'll know (a timeline that certainly may be influenced by the crops being put in the ground this spring). Roughly one-third of the growers report they

will wait three seasons before evaluating this year's new crops while another 30% report they will make their decision after two years and the remaining 37% will decide in one season or less.

More crop diversification may well be in the cards for many of these growers, especially if their 2016 plans don't play out as they hope. More than 40% of the growers who have diversified their crops in the last three years say they don't feel the need for additional changes. But another 21% of growers report they would diversify further if they had additional capital and another 12% would do so if commodity prices were more consistent.

"I FOLLOW THE LEAD OF OTHER GROWERS IN MY IMMEDIATE AREA. I RESPECT THEIR INSIGHTS."

The need for capital investment limits crop diversification on many farms – more than 20% point to it as the biggest reason they don't make bigger changes in 2016. Quite simply, diversifying their plantings further would require more land than they have.

One other obstacle stands in the way of many farmers' plans for diversification, and it's no surprise given the aging farmer population – it's their own age. "I'm getting too old to start with a new crop," admitted one Southeastern cotton grower with no plans on crop diversification.

"I intend to retire soon," said a farmer with more than 1,000 acres in the Mid-Atlantic. "Our plantings have been

Diversifying Can Mean Livestock, too

Diversification can mean many things on a farm, especially when you consider that crops are really a farmer's product. So, too, can be livestock, and nearly one-quarter of these survey respondents said they will raise livestock in 2016. These farmers are ...

- More likely to be found in the Midwest and Southeast than the full survey audience, and they're rarely found out West;
- More likely to be producing vegetables or cotton in their fields than are the growers not raising livestock;
- Farming about 607 acres compared to nearly 700 acres for growers without livestock;
- More like to have diversified their crops – more than 63% report having added at least one new crop in the last three years;
- Changing a larger portion of their farm as part of their diversification efforts.

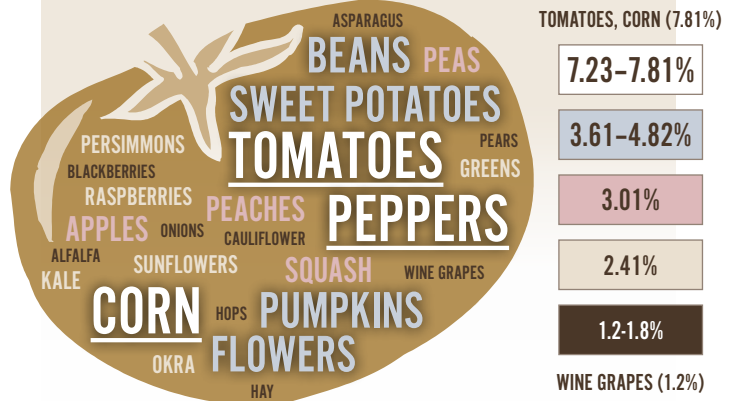


★ FARM FACT ★

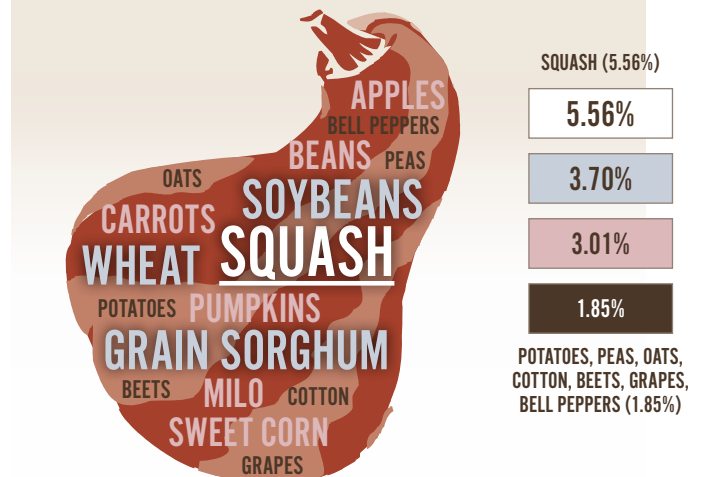
Smaller growers are diversifying their crops less often than are larger growers. The average size of a farm that is changing crops less often today than in the past is roughly 580 acres compared to 750 acres for those farms that say they are diversifying their crops more often.



Please list the crops you **WILL GROW** in 2016 that you did not grow in 2015



Please list the crops you **WILL NOT GROW** in 2016 that you grew in 2015





How much time do you take to evaluate the results of the crop diversification decisions you make?

Less than one season

One season

Two seasons

Three or more seasons



fairly consistent for the last few years, and they'll stay that way."

But farmers focused on their future and committed to maximizing their profits over the next few years and beyond know that diversifying their plantings can be a key part of their success.

"I need to find a new crop that will make money in our area," noted one fruit grower.

"Regulations change, the weather changes, markets change," observed a fruit and vegetable grower with more than 2,500 acres. "We have to change, too."

About AgAmerica Lending

Whether you are expanding your existing ranch, buying a farm, or making long-term improvements to your agricultural land, AgAmerica can custom-build a loan solution that fits your needs. We work with ag industry professionals of all types, so we understand you and your unique financing needs.

AgAmerica is especially committed to working with multi-generation farm families to help them finance the future of their increasingly diverse operations. For example, AgAmerica's Farm & Ranch lending program has no standard prepayment penalties, which is different from programs offered by other agricultural lenders. That means you can pay down your AgAmerica loan or line of credit at your leisure, on a schedule that works for your operation.

For more information about AgAmerica Lending, visit us at www.AgAmerica.com or call us at (844) 516-8169. ♦

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