Drivers of Consolidation and Structural Change in Production Agriculture

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Farm Typology (2015)

- **Small Family Farms**
  - GCFI less than $350,000
  - 89.7% of farms

- **Midsize Family Farms**
  - GCFI between $350,000 and $1,000,000
  - 6.1% of farms

- **Large-Scale Family Farms**
  - GCFI greater than $1,000,000
  - 2.9% of farms
U.S. Farms and Value of Farm Production

% of U.S. Farms, 2015
- Small Family Farms: 89.7%
- Midsize Family Farms: 6.1%
- Large-Scale Family Farms: 2.9%
- Nonfamily Farms: 1.3%

% of U.S. Value of Farm Production, 2015
- Small Family Farms: 24.2%
- Midsize Family Farms: 42.4%
- Large-Scale Family Farms: 22.8%
- Nonfamily Farms: 10.6%
Cost Economies

• **Economies of Scale**
  – Fixed Costs
  – Technology
  – Pecuniary Economies of Scale
  – Utilization of Key Personnel

• **Economies of Scope**

• **Learning Curve**
Economic Total Expense Ratio, 2011-2015 KFMA Data
Production Frontier, KFMA Data

- Production Frontier 2010
- Isoprofit Line 2010
- Production Frontier 1993
Key Factors Influencing Consolidation (Impact on Large Farms)

• Government Payments and Limits (-)

• Off-Farm Employment Opportunities (0)

• Capital and Labor Market Access (+)
• Managerial Resources (+)
• Profitability and Growth Focus (+)
• Risk (+)
Key Factors Influencing Consolidation (Impact on Large Farms)

- **Cost Economies (++)**
  - L-shaped cost curve
- **Technology (++)**
  - Second machine age
- **Value Chain Alliances (++)**
  - Reconfiguration of the value chain
  - Potentially change source of competitive advantage
Implications for Agribusinesses

• Customer Relationships
  – Less homogeneous customer base

• Products and Services
  – Total system approach

• Pricing Strategies
  – Increasingly competitive price pressures

• Distribution Strategies
  – Dealers and distributors will be challenged to add value

• Communication Strategies
Questions, Comments