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INCOMES OF FARMERS' ELEVATORS

The purpose of this number of Farm Business Notes is to summarize briefly the present situation in regard to incomes of Minnesota farmers' elevators. No. 78 of this publication, issued May 20, 1929, discussed elevator costs and why costs vary.

The board of directors and the local elevator manager should take an active part every year in studying and managing the business. Efficient operation and provision for adequate income include their most important responsibilities. Sufficient income is necessary to meet four financial needs: (1) Total expenses, including depreciation and doubtful credit accounts, (2) employment of a capable manager and efficient cost factors, (3) creation of sufficient reserves, and (4) interest on capital stock.

Incomes Vary

Data analyzed by this division during the past winter, from 94 farmers' elevators in Minnesota for the 1927-28 business year, show a surprisingly great variation in income. One striking difference between districts is that elevators in southern Minnesota handle a smaller volume of grain but receive larger incomes from sidelines and miscellaneous sources. Table I indicates that differences in net incomes between districts are relatively unimportant. Forty-five elevators in southwestern Minnesota received net incomes averaging \$4255, as compared to \$4535 for 32 elevators in northwestern Minnesota, a difference of less than \$300. Very significant differences in net income exist, however, between elevators within each district.

TABLE I
Average Gross Income of 94 Farmers' Elevators in Minnesota - 1927-28
(In dollars)

District	Number of elevators	Grain trading income	Sideline trading income	Misc. income	Total gross income	Net income
Northwest	32	7380	2055	1500	10,940	4535
Southwest	45	7190	2950	1260	11,400	4255
Central & southeast	17	6250	4910	2000	13,160	4290
Total or average	94	7085	3000	1465	11,550	4350

Total Gross Income. Elevators receiving the lowest as well as the highest total gross trading income are located in southwestern Minnesota where \$2920 was the smallest and \$36,610 the highest, while the 94 elevators averaged \$11,550 gross trading income. The most common gross income from all sources (grain, sidelines, and other income) ranged from \$5000 to \$10,000 and was received by 38 elevators, while 27 elevators received from \$10,000 to \$15,000. Eleven received less than \$5,000 and 15 received over \$20,000. Eight elevators received less gross income than expenses, so showed a net loss of operation during the year.

Income from Grain Trading Only. Grain trading incomes averaged \$7085 for the group as a whole, but ranged from \$265 to \$26,600. The most common grain trading incomes ranged from \$5000 to \$10,000, received by 43 of the 94 elevators. Thirty-seven received less than \$5000 and seven received over \$15,000. Grain trading incomes constitute only 61 percent of the total gross income for the group as a whole.

Gross Income from Sidelines. Income from sale of sidelines varied from 0 to \$14,000 and averaged \$3000. Twenty-two elevators received less than \$1000, 19 received from \$1000 to \$2000 and 21 received from \$2000 to \$3000, while 15 received over \$5000 from sidelines alone.

Other Income. Feed grinding, handling pooled grain, seed cleaning, storing and interest frequently supply important sources of income. They averaged \$1465 for the 94 elevators during 1927-28, ranging from 0 to \$8200. Sixty percent, 56 elevators, received less than \$1000, 25 received from \$1000 to \$3000 and 9 received over \$5000.

Total Net Income (Profit or Loss). Average net income of the 94 elevators amounted to \$4350 profit, ranging from a loss of \$4075 to a profit of \$23,700. The most common net return for the year was shown by 19 elevators which received between \$1000 and \$2000 profit. Eight received profits less than \$1000 and seven showed losses. Thirteen elevators received from \$2000 to \$3000, 14 received from \$3000 to \$4000, and 17 received from \$5000 to \$10,000 net profit.

Why Incomes Vary

Variation in incomes of farmers' elevators may be due to numerous reasons, chief of which are: (1) Volume of business, (2) prices paid and prices received for commodities handled, (3) operating expenses, and (4) the amount and quality of service rendered to the community.

Gross Grain Trading Margins. A surprisingly large variation of grain trading margins was received. They averaged 5.8 cents per bushel, and ranged from 1.1 cents per bushel, received by an elevator in southwestern Minnesota, to 13.5 cents received by another elevator in that part of the state. Eight elevators received less than 3 cents; 16, 3 to 4 cents; 13, 4 to 5 cents; 14, 5 to 6 cents; 16, 6 to 7 cents; 10, 7 to 8 cents; 9, 8 to 9 cents; and 3 elevators received margins exceeding 9 cents per bushel.

Sidelines. (Sidelines contributed one-fourth of the total gross income.) Table 1 shows that elevators in southwestern Minnesota received more than double the income from sidelines than elevators in northwestern Minnesota. Gross incomes from sidelines, divided by the number of bushels of grain each elevator handled, show that 20 elevators received less than 1 cent per bushel, 31 received from 1 to 2 cents, 14 received from 2 to 3 cents, and 15 received more than 5 cents, the average of the group being 2.6 cents.

Other Income. Considering the state as a whole, other sources of income are relatively unimportant. Although they contribute less than 13 percent of the total gross income, approximately 1.2 cents per bushel of grain, they frequently enabled an elevator to show a profit instead of a loss. Feed grinding is the most important source of this type of income. The 27 elevators showing incomes from feed grinding, received an average of \$2273 from this source alone. Their average profit was \$5782, as compared to \$3783 for the 67 elevators with no feed mills, a difference of \$2000 in favor of the former. Thirteen elevators, with incomes from feed grinding exceeding \$2000, showed an average profit of \$7913, while the remaining

14 elevators, each receiving less than \$2000 from this source, showed an average profit of \$3803, or a difference of over \$4000 in favor of the former. This should not be interpreted, however, as being due only to differences in income from feed grinding.

Relation of Volume to Incomes and Margins

Table II presents data on margins and incomes of 94 elevators, divided into five groups, based on volume of grain handled. The important conclusions are that farmers' elevators handling large volumes, (1) pay farmers higher prices per bushel of grain, as evidenced by the smaller grain trading margins, (2) receive much larger net profits, and (3) sell a smaller proportion of sidelines. Elevators handling less than 100,000 bushels receive twice as much income from sidelines. Although total gross income is fully 4 cents more per bushel, than where more than 100,000 bushels are handled, the much smaller net profit indicates that smaller patronage dividends are paid in addition to paying farmers less for grain.

TABLE II
Relation of Volume to Margins, Incomes and Managers' Salaries
(94 elevators) 1927-28

Volume group (bushels)	Number of elevators	Grain trading margin	Sideline profit per bu.	Other income per bu.	Total gross income	Profit	Average manager's salary
		¢	¢	¢	¢		
Over - 200,000	16	4.2	1.9	1.0	7.1	\$9164	\$2263
150,001 - 200,000	18	5.4	1.9	1.0	8.3	6529	2150
100,001 - 150,000	26	5.2	1.9	1.1	8.2	2964	1948
50,001 - 100,000	25	7.3	3.7	1.1	12.1	2139	1862
50,000 - Under	9	6.9	4.0	2.1	13.0	644	1558
Total or average	94	5.8	2.6	1.2	9.6	4350	1993

Elevators handling less than 100,000 bushels sold sidelines exceeding 30 per cent of the value of grain sales. A smaller proportion of sidelines are sold by elevators handling much grain, which is as it should be. As one would expect, Table II shows the highest paid managers are employed by elevators handling the most grain. Fifty percent higher salaries are paid where more than 200,000 bushels are handled, as compared to elevators handling 50,000 bushels or less; yet the former handled \$133 of business per dollar of salary, as compared to only \$32 for the latter. Sixteen managers at elevators handling over 200,000 bushels, returned more than \$4.00 net profit per dollar of salary, as compared to 44 cents for nine managers handling less than 50,000 bushels. Eleven managers received salaries under \$1500, returning an average of \$1.15 net profit per dollar of salary; 17 received from \$1500 to \$1800 and returned \$1.95; while 22 received \$2400 or more and returned \$2.60 per dollar of salary. The tendency to underpay efficient managers as compared with those that are inefficient is significant, and indicates the importance of adjusting the scale of salary to managerial efficiency by officers and boards of directors of farmers' elevators.

Providing Sufficient Income

The first important requirement of management in this respect is to decide what income is needed to provide for, (1) operating expenses, (2) replacement costs, and (3) interest on stock. Grain trading margins may then be determined for each kind of grain and what sidelines can be handled profitably. The decreasing importance of grain marketed, and greater diversification of farming, frequently necessitate supplementing these with other income. Numerous elevators could increase incomes, and render a greater service to their communities by installing a feed mill or grain cleaner.

The second requirement is to stabilize income. Grain trading margins can be protected by consistent 100 percent hedging, and complete information on protein premiums. Over-grading and under-docking are unethical business practices and so should be avoided because they frequently wipe out grain trading margins. Producers ought not to expect a manager to resort to them. Measures must also be adopted to safeguard the elevator against possible losses from granting credit liberally on sideline sales because many are never collectable. Credit ought never to be granted liberally.

Producers can go a long way in cooperating with their local marketing institutions to make them a greater financial success.

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PRICE INDEX NUMBER FOR JUNE, 1929

The index number of Minnesota farm prices for the month of June, 1929 was 108.6 as compared with 100, which represents the average of the prices prevailing in the three months of June, 1924-25-26. The corresponding index for June, 1928 was 109.9 and for June 1927, 100.6.

The price index of 108.6 for the past month is the net result of increases and decreases in the prices of farm products in June, 1929 over the average of June 1924-25-26 as shown in the following list:

Principal Farm Products which Showed Price Increases and Decreases in June, 1929 when compared with Average Prices in June, 1924-25-26.

<u>Increase in June, 1929</u>		<u>Decrease in June, 1929</u>		<u>No Change</u>
Corn	Lambs-sheep	Wheat	Flax	Eggs
Hogs	Chickens	Oats	Potatoes	
Cattle	Butterfat	Barley	Hay	
Calves	Milk	Rye		

The June, 1929 prices of these products have also been compared with the prices of June, 1928 for increases and decreases. The products are shown according to this comparison in the following table:

Principal Farm Products which Showed Price Increases and Decreases in June, 1929 when Compared with June, 1928.

<u>Increase in June, 1929</u>	<u>Decrease in June, 1929</u>	<u>No Change</u>
Flax	Wheat	Butterfat
Hogs	Corn	
Cattle	Oats	
Calves	Barley	
Chickens	Rye	
Eggs	Potatoes	
Hay	Lambs-sheep	
	Milk	

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