

“Large Famers’ Business Models in Argentina”

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Introduction

- Argentina is one of the most important agricultural countries, and due to historical reasons large farmers are important players in these markets (Gallacher et al., 2003);
- According the last Argentine agricultural census there were around 200 farmers in 2002 (last available data) with more than 10,000 hectares in main crop land area, which is the Humid Pampa region (National Agricultural Census 2002).
- Although they manage a small proportion of the total agricultural land, they demand a large amount of agricultural inputs and sell an important share of the grains to foreign markets.
- According to a survey carried out by Austral University in the second semester 2012, large producers who operate farms of 10,000 hectares or more are less than one percent all farmer in the Argentine Humid Pampa territory; however, they produce thirty percent of the extensive crops: mainly soybeans, wheat and corn (Feeney et al., 2012).

Research Goals

- The main goal of this paper is to understand the characteristics of the business models of large farmers according to features such as:
 - land tenure (own or rent the land);
 - organization (family or corporate owned);
 - management (professional or less professionally oriented);
 - expansion policies (local, national or international);
- A second objective is to evaluate their economic performance through financial ratios

Data

- The data we use to study large farmers is based on two sources. The first one is the survey on “The Need of Argentine Farmers”, by the Center for Food and Agribusiness of the Austral University in Argentina, with the partnership of the University of Purdue in the US.
- The second source is a specific survey we send to 180 large farmers asking them about their business models, related with land tenure, organization management, expansion and financial policies, gran commercialization and the usage of risk management tools. We also ask them about their economic and financial performance.

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FARM SIZE IN HECTARES			
		Number	Percentage
Size (Ha)	5.000 -10.000	23	37%
	10.001-20.000	10	16%
	20.001-50.000	14	22%
	> 50.001	16	25%
Total		63	100%

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LAND TENURE (OWNED OR RENT THE LAND)			
		Number	Percentage
Percentage of Rented Land	0	9	14%
	1-25	12	19%
	26-50	10	16%
	51-75	8	13%
	76-100	15	24%
	100	9	14%
Total		63	100%

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PROPERTY OF THE FARM			
		Number	Percentage
Property of the Farm	A Group of Partners	21	34%
	A Public firm	4	6%
	Family Owned	37	60%
Total		62	100%

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MANAGEMENT OF THE FARM			
		Number	Percentage
Management is	Corporate/ Professional	28	45%
	Family/ Tradicional)	34	55%
Total		62	100%

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HORIZONTAL GROWTH			
		Number	Percentage
Horizontal Growth	Regional	20	35%
	Nacional	21	37%
	Internacional	3	5%
	Regional & Nacional	3	5%
	Regional & Internacional	2	4%
	Nacional & Internacional	8	14%
Total		57	100%

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VERTICAL GROWTH			
		Number	Percentage
Vertical Growth	Backwards	4	14%
	Forward	17	59%
	Backward & Forward	8	28%
Total		29	100%

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INTERNATIONALGROWTH			
		Number	Percentage
International Growth	From a foreign country to Argentina	1	6%
	From Argentina to a foreign Country	15	94%
Total		16	100%

KEY FINACIAL PERFORMANCE QUANTITATIVE SURVEY

**For Large Grain Farms Argentina
Average Results (5 years)**

General Average (5 years)		
	Median	Number
Return on Equity	0,15	39
Return on Assets	0,09	39
Gross Margin	0,30	39
Return on sales	0,09	39
Debt/Asset Ratio	0,52	39
Debt/Equity Ratio	1,20	39
Asset/Equity Ratio	2,20	39
Sales/Assets Ratio	0,73	39

KEY FINACIAL PERFORMANCE QUANTITATIVE SURVEY

General Average according to Farm Operations Size (5 years)

	Area (hectares)			
	5000-20000 has		>20000 has	
	Median	Number	Median	Number
Return on Equity	0,13	14	0,12	14
Return on Assets	0,08	14	0,04	14
Gross Margin	0,40	14	0,28	14
Return on sales	0,20	14	0,07	14
Debt/Asset Ratio	0,30	14	0,52	14
Debt/Equity Ratio	0,52	14	1,46	14
Asset/Equity Ratio	1,52	14	2,14	14
Sales/Assets Ratio	0,65	14	0,69	14

KEY FINACIAL PERFORMANCE QUANTITATIVE SURVEY

General Average according to Rented land (5 years)				
	Rented Land (%)			
	<50%		>50%	
	Median	Number	Median	Number
Return on Equity	0,14	15	0,12	13
Return on Assets	0,09	15	0,02	13
Gross Margin	0,40	15	0,19	13
Return on sales	0,22	15	0,05	13
Debt/Asset Ratio	0,30	15	0,57	13
Debt/Equity Ratio	0,44	15	1,75	13
Asset/Equity Ratio	1,37	15	3,10	13
Sales/Assets Ratio	0,54	15	1,00	13

KEY FINACIAL PERFORMANCE QUANTITATIVE SURVEY

General Average according to Management Control (5 years)				
	Farm Management Control			
	Corporative (professional)		Family (traditional)	
	Median	Number	Median	Number
Return on Equity	0,05	12	0,16	16
Return on Assets	0,01	12	0,10	16
Gross Margin	0,28	12	0,35	16
Return on sales	0,01	12	0,20	16
Debt/Asset Ratio	0,51	12	0,30	16
Debt/Equity Ratio	1,20	12	0,86	16
Asset/Equity Ratio	2,19	12	1,53	16
Sales/Assets Ratio	0,69	12	0,66	16

KEY FINACIAL PERFORMANCE QUANTITATIVE SURVEY

Area and Rented Land Group 1 (5 Years)

	Less than 20.000 hectares and less than 50% of rented land		More than 20.000 hectares and more than 50% of rented land	
	Median	Number	Median	Number
Return on Equity	0,15	10	0,13	9
Return on Assets	0,11	10	0,06	9
Gross Margin	0,50	10	0,32	9
Return on sales	0,24	10	0,09	9
Debt/Asset Ratio	0,29	10	0,65	9
Debt/Equity Ratio	0,32	10	2,63	9
Asset/Equity Ratio	1,31	10	3,63	9
Sales/Assets Ratio	0,52	10	0,81	9

KEY FINACIAL PERFORMANCE QUANTITATIVE SURVEY

Area and Rented Land Group 2 (5 Years)				
	Less than 20.000 hectares and less than 50% of rented land		More than 20.000 hectares and more than 50% of rented land	
	Median	Number	Median	Number
Return on Equity	0,10	4	0,10	5
Return on Assets	0,02	4	0,04	5
Gross Margin	0,18	4	0,27	5
Return on sales	0,03	4	0,02	5
Debt/Asset Ratio	0,57	4	0,51	5
Debt/Equity Ratio	1,48	4	1,16	5
Asset/Equity Ratio	2,93	4	1,68	5
Sales/Assets Ratio	1,26	4	0,62	5

Conclusions

- Most large farmers rent at least a part of the land on which they operate (86%), and some (38%) at least 75% of the land;
- They are mostly family owned (60%) and family managed (55%)
- Most are intending to grow horizontally (90%), almost half vertically (43%) and some (23%) internationally.
- They show, as an average, healthy financial performance ratios;
- Financial performance of larger farmers (>20,000 hectares) do not seem to be better than smaller farmers (<20,000 hectares),
- Nor the farmers that rent more land (>50%) do better than does that rent less land (<50%).
- We show that those farmers that are smaller (<20,000) and rent less land (<50%) have a better financial performance than those who are bigger (>50,000) and rent more land (>50%)