

Farm Performance during the Transition to Organic Production: Analysis and Planning Tools Based on Minnesota Farm Records

Timothy A. Delbridge^{1*}, Robert P. King², Dale Nordquist³, Gigi DiGiacomo², and Meg Moynihan⁴

Abstract

As farmers consider transition to organic production, many express concerns about the cost of transition and the lack of information regarding costs and returns throughout the process. These concerns are significant impediments to expansion of organic production at a time when the demand for organic food products is growing rapidly. There are few published studies on the economics of organic transition, and there is very limited access to actual farm data on costs and returns during and after transition.

This publication summarizes enterprise costs and returns and whole-farm financial performance measures collected from transitioning and recently certified organic farms in Minnesota that were enrolled in the Farm Business Management (FBM) program offered through the Minnesota State Colleges and Universities (MnSCU) system. It includes data for crop and dairy enterprises on participating farms under conventional, transitional, and certified organic management. It also includes whole farm financial performance data for participating farms prior to the start of transition, during transition, and after certification. We believe this is the first detailed compilation of farm record data for farms transitioning to organic production in the United States.

Results indicate that costs and returns during and after organic transition vary considerably by enterprise. For example, median corn and soybean yields achieved by participating farms fall during transition and further still after certification, though the high organic prices available after certification more than make up for yield declines. In contrast, oat and alfalfa hay enterprises show little to no increase in crop revenue following organic certification, though production costs may decrease slightly. For the dairy enterprise, per cow milk production tends to fall while feed cost stays fairly steady. Whole-farm financial results are mixed. The median rate of farm profitability once organic certification is achieved is not substantially higher or lower than pre-transition levels. However, both types of farm report much reduced profitability and net income during transition.

The mixed and nuanced results of the empirical analysis highlight the importance of careful transition planning. To this end, we developed a transition planning tool that uses the county average yields and production cost information along with our study results to forecast enterprise and whole-farm net returns for each year of the transition process. Though intended only as a starting point for economic and financial planning of an organic transition, this study will be a valuable contribution to the base of knowledge related to the economics of organic adoption.

The full report, along with spreadsheets containing full result tables and supplementary organic transition planning tools, are available at the Tools for Transition website. The site's url is:

<http://eorganic.info/toolsfortransition/reports>

¹Agribusiness Department, California Polytechnic State University, San Luis Obispo, California.

²Department of Applied Economics, University of Minnesota, St. Paul, Minnesota.

³Center for Farm Financial Management, University of Minnesota, St. Paul, Minnesota.

⁴Minnesota Department of Agriculture, St. Paul, Minnesota.

*Corresponding author: tdelbrid@calpoly.edu.