**Managing Overhead Costs**

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Managing costs in production agriculture takes constant attention, particularly during times of high inflation. Costs have increased substantially, especially for energy. Economists measure core inflation as the inflation of goods and services excluding food and energy because those items are more likely to increase (decrease) with increases (decreases) in commodity prices. So, while energy prices can go down, thus lowering fertilizer and fuel costs, many other expenses such as seed, chemicals, rent, repairs, and overhead expenses are less likely to decrease when commodity prices decline.

Budgeting for increased costs due to inflation is an important part of planning for next year. We often use three- or five-year averages when estimating costs for cash flow planning and it seems we often underestimate. Adding in a sufficient buffer to account for increasing costs may be necessary this year, particularly with many of the overhead expenses.

Overhead expenses seem to increase every year and are often out of anyone’s control, especially at the beginning of the year. Many of these overhead expenses exist regardless of whether a crop is planted, or animal produced. These can include machinery and building leases, farm insurance, dues and professional fees, term debt interest, real estate tax, depreciation, and utilities. Note that some of these, such as term debt interest and depreciation, can fall from one year to the next as a capital investment is paid off and gets older, but can increase after making a capital purchase.

Overhead expenses should be allocated by enterprise to see that each enterprise is contributing to the whole but doing so is far from an exact science. One method is to divide overhead expenses by the number of acres farmed or livestock raised. This is simple and is useful when preparing a cash flow budget. For instance, if a 1,000-acre farm raised soybeans and spring wheat on 500 acres each and had total overhead expenses of $50,000, each crop would need to pay $25,000 or $50/acre. Since field operations and equipment needs are nearly identical for these crops, this method makes sense. However, if the farm decided to add a third crop that requires additional equipment such as sugar beets, equipment-related overhead costs should be allocated differently because the sugar beets need to pay for the specialized equipment.

Likewise, adding livestock to the operation complicates the analysis and raises several questions: How much of the machinery depreciation should be allocated to livestock? What about utilities, term debt interest, or insurance? How much fuel does the livestock enterprise need to cover? Again, there is no exact method for determining these allocations, but some analysis should be done to allocate these costs appropriately.

It is useful to compare your costs to other farms and to have some accurate benchmarking numbers when evaluating overhead costs on your operation . The North Dakota Farm Management Education Program website (ndfarmmanagement.com) contains resources you can use to compare overhead costs by enterprise to see if you are spending more or less than your peers. FINBIN, an online farm financial database developed by the Center for Farm Financial Management at the University of Minnesota (finbin.umn.edu), is another useful tool that allows you to evaluate overhead costs by enterprise while comparing your numbers to other farms in several states.

To learn more about farm succession planning and other financial questions about farms and ranches, visit with an instructor near you. The North Dakota Farm Management Education Program provides lifelong learning opportunities in economic and financial management for persons involved in the farming and ranching business. Visit [ndfarmmanagement.com](http://www.ndfarmmanagement.com), Facebook @NDFarmManagementEducation, or contact Craig Kleven, State Supervisor for Agricultural Education, at crkleven@nd.gov or 701-328-3162 for more information. The ND Farm Management Education Program is sponsored by the North Dakota Department of Career and Technical Education.