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What Skills and Competencies Do I Need to Grow?

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There are numerous motivations for farms to expand their businesses. Even in today's environment of tight margins, many farms are exploring expansion options. When exploring these options, it is important to address key questions pertaining to the farm's strategy. A previous article (*farmdoc daily*, August 5, 2016), discussed ten questions that should be addressed when examining challenges and opportunities associated with farm growth. This article focuses on the fifth question: what skills and competencies do I need to grow?

In many cases a new business venture may use the managerial skill set of the current business, but a realistic assessment of current management skills and those skills required by the new venture is essential when evaluating a new business venture. When evaluating skills needed by a potential venture, it is important to also think about current management skills and gaps. One of the ways to gauge management skills and gaps is to fill out detailed checklists, similar to those found in Boehlje et al. (2001). These checklists provide a self-assessment of important business functions. Checklists can also be used to track progress with regard to a farm's professional development goals. Major business functions that should be evaluated with regard to management capacity are briefly described below.

Production Skills

Production skills include timeliness of operations, selecting technology that improves efficiency, establishing and achieving production benchmarks, and correcting production problems in a timely manner. The operating expense ratio (operating expenses, excluding interest expense, divided by gross revenue or value of farm production) can be used as an indicator of strong production management skills. A relatively lower long-term operating expense ratio would indicate that the farm is efficiently using its resources to produce crops and livestock.

Procurement and Selling Skills

Procurement skills include developing written purchase and sale plans, buying and selling with the understanding of the value and features of inputs and product value to the customer, taking advantage of opportunities to transfer price risk, and understanding the merchandising environment of your products. When purchasing inputs, it is important to consider discount and credit programs, delivery schedules, and quality specifications. When selling products, it is important to consider where to price products, when

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and how to make deliveries, the frequency of deliveries, and the risks associated with trying to enhance price.

Financial Management Skills

Financial management skills include making effective use of debt and equity capital; using capital budgeting procedures to evaluate capital investments; using leasing arrangements when appropriate; evaluating cash management alternatives; establishing benchmarks for liquidity, solvency, profitability, and financial efficiency measures; developing and maintaining an effective financial accounting system; and managing income taxes effectively. One of the key questions to ask is whether your farm computes and evaluates accrual net farm income and decomposes the change in equity from the beginning to the end of year into changes in retained earnings (net farm income minus owner withdrawals) and changes in asset values.

Personnel Management Skills

As farms continue to expand, managing and supervising employees becomes increasingly important. Personnel management skills include defining specific duties and delegating authority; providing training and orientation to new employees; designing compensation packages; providing feedback; and recognizing the role human resources play in the success of the business.

Strategic Positioning Skills

Strategic positioning involves thinking about the farm's competitive advantage. Is the farm going to be a cost leader or is it going to try to add value? What products is the farm going to focus on? What opportunities are available to the farm in the next few years? Strategic positioning skills include identifying factors that are critical to long-term success, identifying impediments to long-term success, identifying strengths and weaknesses of the business, searching for better ways of doing things, and evaluating new and emerging markets.

Relationship Management Skills

As the importance of strategic alliances and the production of value added products increases, it becomes increasingly important to manage relationships between input providers and customers. Relationship management skills include negotiating mutually beneficial business arrangements with landowners, lenders, suppliers, and customers; practicing active listening skills to ensure that you have an understanding of the other party's point of view; and working with a diverse group of individuals to identify common goals or areas of agreement.

Leadership Skills

Leadership skills involve influencing, motivating, and directing other people. Strong leadership skills often lead to a more complete picture of the farm's vision and help communicate this vision to others in a way that motivates them to work towards its accomplishment. Leaders develop a plan and anticipate and adapt to future changes in the business and the environment in which the farm operates.

Risk Management Skills

Risk management skills include establishing appropriate levels of insurance; developing contingency plans; collecting information about important trends; and understanding the sources and scope of the financial, business, and strategic risks the farm faces. Financial risk arises from the financial obligations associated with debt financing and leverage. Business risk involves production, marketing, legal, and human risks. Strategic risk arises from the forces shaping the changes that are occurring in the industry. Examining the farm's strategic positioning skills (discussed above) helps determine whether the farm is able to mitigate strategic risk.

Concluding Thoughts

When evaluating farm growth options, it is imperative that a farm evaluate the skills and competencies needed to grow. These skills are often more limiting than capital, and can become spread very thin. Therefore, it is important to develop management capacity in preparation for the expansion. Future

articles will explore financial considerations, business models, and start-up challenges pertaining to farm growth.

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