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As the agricultural marketplace evolves, strategic planning is an important tool for production agriculture, input suppliers, farm product processors and farm lenders in the United States in addressing new opportunities and risks. Strategic planning empowers American agriculture and allows it to proactively manage these new opportunities and risks. Strategic planning visualizes the broad

Role of a Strategic Plan Has Never Been More Important

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by:
Cornelius Gallagher

range of possibilities to help anticipate and prepare for change. In fact, research has found that worst-case-scenario planning also can help identify breakthrough business opportunities.

In order to begin the strategic planning process, one needs to consider:

- What does the future hold?
- What does the ideal version look like?
- What is the best way to achieve that ideal?
- What is the worst-case scenario?
- How can the worst-case scenario be avoided?

Bankers, family farms, rural businesses and communities, and policymakers need to address these questions in practical terms.

Economic data can help identify those sectors in rural America that may be at risk. Overall financial performance from 1996 to 2000

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shows that nearly 40 percent of the farm businesses have marginal income, marginal solvency or are vulnerable. Further, more than 20 percent of farm businesses have debt repayment capacity utilization of above 80 percent. Again, this suggests that some producers are struggling to remain viable. Additionally, the average return on equity in American agriculture has trended downward during the past 40 years. In other words, traditional agriculture is becoming less profitable and financially vulnerable.

Moreover, government payments have in large part contributed to the rise in agricultural land values in recent years – despite reduced profitability from farm operations. The Farm Security and Rural Investment Act of 2002, commonly referred to as the new Farm Bill, ensures the continuation of government program crop payments for the next 10 years. However, the longer-term future for government program crop payments remains uncertain. Some economists have suggested that land values in regions with significant program crop payments may fall by 20 to 30 percent if crop payment programs are scaled back in the future. This relatively remote risk of a decrease in land values should concern agricultural lenders looking at long-term loans.

The global marketplace is large, complex and growing rapidly, requiring a different perspective. The positives are that the United States has more supply and more marketing channels. However, a larger global market also means that there are more core competitors, and more vulnerability requiring new business strategies.

Domestically, uncertainty and conflicts in stakeholder agendas undermine confidence in the food supply chain, while consumer preferences change. Consumers are diversifying their purchases of food products – shifting from grocery stores to convenience stores, big-box stores, club stores and drug stores. Consumers are willing to pay for convenience and packag-

ing that make meal preparation quick and easy. Gone are the days when meals were made from scratch. It is getting to a point where many consumers do not want to take the time to use a can opener.

The \$64,000 question is how do family farmers identify these future trends and market developments?

The current difficulties confronting production agriculture are a hindrance to wide implementation of strategic policies. Resources are being diverted from the planning process to address the risk faced by family farms and rural regions. These segments of agriculture only become more at risk because they cannot afford the professional support needed to work through the changes confronting agriculture today.

As pressures mount to redefine agriculture's role and contribution to society, agriculture takes center stage with respect to a number of challenges – food safety, biotech, the environment, water and subsidies.

There are new opportunities for creating value just beneath the surface of traditional farm production economy – the bio-economy, environmental amenities, agri-tourism and more. Opportunistic farmers and processors are teaming up in strategic alliances to create new consumer value and increase sales and profits.

Once again, to take advantage of these opportunities, American agriculture needs to have the foresight to envision these new realities.

Information and market research are the keys, but both are expensive. Therefore, family farmers need to partner with other similar specialty

crop producers to gather and analyze the data on customer preferences. This is a case where the Value-Added Agricultural Product Market Development Grants provisions in the new Farm Bill may be beneficial. This new program will fund projects that help increase agricultural producers' share of the food and agricultural system. It is expected to consider projects from a variety of agricultural sectors such as renewable energy, high-value products from major crops, agri-marketing ventures and community-supported agricultural projects.

The USDA report, "*Food and Agricultural Policy: Taking Stock for the New Century*," details the enormous changes that have taken place in agriculture which continue to accelerate across the American food and farm sector.

U.S. agriculture is being driven by basically the same forces shaping the American economy – globalization of markets and cultures; advances in information, biological and other technologies; and fundamental changes in the work force and family structure. It examines the enormous changes faced by today's food and farm system as well as the lessons learned from more than seven decades of food and farm policies.

Past policies designed for narrower purposes in an isolated economy simply cannot meet the current needs of our modern, rapidly expanding food and agricultural system. Future policies must be tailored to create conditions that will attract private investment, encourage the education of the rural labor force

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and promote alternative uses of our natural resource base, including thorough development of renewable energy sources and carbon sequestration to reduce greenhouse gas emissions.

For lenders to effectively serve the evolving agricultural marketplace, lenders need to have information in their portfolios about input suppliers and farm product processors. The traditional bank call report information on the farm production and farm real estate loans reflects an era that has past. If ag bankers are going to adapt with the changes in the marketplace, their portfolios need to reflect the evolving nature of business.

The opportunities and challenges facing rural America are as diverse as rural America itself, and there is no single recipe for prosperity. Farming no longer anchors most rural communities and economies. Instead, the non-farm economy anchors much of agriculture, and rural strategic planning for the 21st century must recognize the increased importance of non-farm jobs and income as the drivers of rural economic activity.

The new Farm Bill has provisions that may help address these issues. It establishes the Rural Strategic Investment Program, which will establish a National Board on Rural America. This board will make planning and innovation grants to certified Regional Investment Boards and hold a national conference on rural America to address challenges facing rural areas. **jal**

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