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HOW THE WORLD'S LEADING FARMERS ARE RESPONDING TO GLOBAL CHANGES -A CONSULTANT'S REVIEW

*Rob Napier,
Director, Napier Agrifutures, 39 Heifer Station Lane,
Borenore NSW 2800, Australia.
Email: robnapier@bigfoot.co*

*Wim T. Nell,
Director, Centre for Agricultural Management,
University of the Free State, 9301, South Africa.
Email: NellWT.SCI@mail.uovs.ac.za*

Abstract

Agribusiness systems (from 'farm to fork') are undergoing enormous changes. This paper first considers the major drivers of change and their dramatic impacts on farmers and farm management systems. Drawing on the authors' experiences working with farmers around the world the paper then considers nine major areas where leading farmers are focusing as they seize the opportunities from the changes. These are: planning (strategic and operational); environmental management; new technologies; co-operation; developing a market-driven focus; business growth; risk management; off-farm businesses and managing people. Examples of successful strategies are given for each of the management areas drawing on case studies from a number of countries. The paper concludes with a check list that managers and their advisers can use to assess how well a farm business has prepared for success in the new world of agribusiness.

Keywords: drivers of change, management systems

Introduction

The world's farmers are managing their businesses in a time of unprecedented change and the pace of change is unlikely to slow. The volatility of production and markets is also likely to increase rather than diminish.

The roles of farm managers have never been more interesting or challenging.

This paper reviews how leading farm managers in a wide range of countries are responding to the changes and positioning their businesses for success in the years ahead.

The paper is not the result of formal academic research. It draws on information obtained during consulting work in Australia, New Zealand, Africa, North and South America, Europe and Asia. The authors have travelled widely in the major agricultural areas of the world visiting farms, learning from farmer presentations and working with leading farmers in executive training programs. They are members of best practice groups, on top farmer panels and deliver presentations and workshops on leading farm management strategies. They are the authors of a book on strategic management for farm managers.

In order to better understand the changes facing farm managers, the authors also constantly review changes in all the other links of agribusiness supply chains – farm input suppliers, transporters, processors, retailers and, most importantly, consumers.

The paper begins with a brief consideration of the major drivers of change. The dimensions of the changes indicate why there is a revolution in the roles of farm managers.

The body of the paper discusses the responses of the world's leading farmers to the changes. Nine areas of managerial focus are considered with inspirational examples of successful strategies.

The areas where the leaders are focussing are summarised in the form of a check list that can be used to assess the strengths and weaknesses of a farm business.

Drivers of Change

A Marketing Revolution

Enormous changes are occurring in the way agricultural products are marketed. These include:

- deregulation of most markets
- a change from production-driven to market-driven agriculture
- demands for quality assurance and traceability
- division of many markets into segments, each requiring specific marketing strategies
- global competition with emphasis on the performance of entire supply chains
- pressure from retailers and processors for a smaller number of professional suppliers.

There is a marketing revolution forcing farmers to think in terms of customers, value chains and the requirements of the total food/fibre system.

Declining Terms Of Trade

The ongoing cost/price squeeze in agriculture results in small margins on raw (undifferentiated) commodities. This is driving some farmers to lower costs through increased scale and/or to seek higher margins through value adding.

Globalisation And Consolidation

World markets for agricultural products have become globalised, aided by a transport and logistics revolution. Large processors and retailers shop globally, creating intense competition. World trade is progressively being freed up so there is nowhere for farmers to hide from competition.

A merger frenzy in the food chain is resulting in enormous market power for multinational companies. Many food-based companies are diversifying into related industries (for example, the recent purchase by Nestlé of the weight loss company, Jenny Craig).

New Technologies

New technologies such as precision farming and biotechnology are also driving huge changes in agriculture. Most new technologies require a larger scale for effective implementation and most require higher levels of management.

Management Innovation

Leading managers are discovering that they can operate agricultural businesses very differently from traditional approaches. New business models, often adapted from non-farming industries, are being used. New approaches to management, organisational structure, financing and resource use are now a driver of changes. This is accelerated by the global sharing of knowledge between leaders.

Government Policies (Domestic And International)

Government policies remain an important driver of change. There is ongoing pressure to establish freer world trade through bilateral and multilateral agreements. Governments continue to change regulations on issues such as tariffs, quarantine and environmental management. Knee-jerk reactions to food safety issues can create market shocks. Policies on currency and interest rate settings, farm support programmes and the adoption of new technologies such as genetically modified organisms (GMO's) can have significant implications. The unpredictability and nature of policy changes can create increased risk for farmers and has enormous bearing on the directions agriculture takes (for example, the current policies regarding ethanol in the USA).

Environment Management Challenges

Environmental management issues are in the forefront of the minds of the community and governments. Demands for changes, many with significant implications for agriculture, will be relentless. Key issues are: climate change, water (quality and quantity), energy, environmental degradation, air quality and biodiversity.

Consumer and Community Demands

The demands of consumers and the community at large are constantly changing and expanding, affecting the directions of agriculture. Perceptions, whether based on reality or not, drive the decisions of governments, and food and fibre processors and retailers. Demands for characteristics such as consistency, reliability of supply, food safety and traceability are shaping the nature of supply chains. Health, environmental and animal welfare attributes are important drivers of demand in some market segments as are cultural and religious issues.

Outcomes of Change

The drivers of change discussed above are resulting in four major outcomes for agriculture. The first is structural change favouring larger farms and reducing the number of medium-sized farms (the disappearing middle).

The second is a similar effect on supply chains. The “critical mass” for a viable supply chain supporting transporters, processors and retailers is steadily increasing. In some agricultural areas, difficult decisions on what to give up will be required if industries are to remain viable.

A third outcome is greatly increased vertical coordination in order to satisfy demands for traceability/quality assurance and to increase supply chain efficiency.

The fourth outcome creating both opportunities and challenges for farmers is the demand for farms to be multi-functional. No longer is the role of farm businesses seen to be solely as the providers of agricultural products. Farm businesses are required to provide a range of environmental, landscape and recreational services. Agriculture is being integrated with other industries such as tourism, health and recreation.

Responses of Leading Farmers

Leading farm managers are focussing on nine major areas of their businesses as they respond to global changes.

Planning (Strategic and Operational)

An outstanding attribute of top farmers is their ability to plan both at strategic and operational levels. They are prepared to think strategically and creatively, courageously scanning global developments and positioning their businesses to seize the opportunities from change. They fearlessly analyse the strengths and weaknesses of their businesses, are prepared to question everything they do and to make major changes if required.

A critical factor for success is the preparation of written business, personal and family goals that are regularly modified as circumstances change. Setting goals gives direction and purpose. In the words of one Australian farming family, “setting goals has reinvigorated our whole farming energy”.

Business plans are also considered to be an important management tool. These are comprehensive, regularly modified and communicated to key members of the management team.

Leading farmers also focus on the operational side of their businesses. They develop detailed operational manuals for key tasks. By developing and documenting systems, they are able to grow their businesses without losing control. For example, a husband and wife team with a rapidly growing business in Western Australia, has developed detailed manuals for sowing, harvesting and spraying operations. These manuals are reviewed with staff after each season and continuously improved. Delegation is made easier so that managers are freed up from operational tasks. Another farmer in New Zealand who markets over 400 000 lambs each year has developed a system whereby the pasture availability on over 1 000 fields can be monitored each month.

As a result of a comprehensive approach to strategic and operational planning, leading farm managers are able to re-define their management roles, develop appropriate structures for their businesses and focus on the major determinants of business success.

In order to ensure objectivity and excellence in planning and decision-making, an increasing number of farm families are appointing boards of independent experts to regularly review all aspects of their businesses.

Successful farm businesses tend to use more outside expertise than others. They have a philosophy of continuous improvement.

Innovation in Environmental Management

Leading farmers recognise that demands for improved environmental management will increase rather than diminish.

They are beginning to see that there are business opportunities emerging from meeting consumer and community demands. So, rather than being defensive, they are “on the front foot” developing their environmental credentials and seeking innovative ways to improve the sustainability of their farming systems. Strategies such as minimum tillage, integrated pest management and improved water use efficiency are used.

It is recognised that in many situations farms are required to be multifunctional – providing not only products but also ecosystem and other services. For example, a farm in New Zealand runs large sheep and cattle enterprises and also has tourism and hunting enterprises, plus a large government-supported conservation project to maintain biodiversity.

Leading farmers understand that to achieve good outcomes on environmental issues, it is important to involve stakeholders and seek to win their support.

Selecting and Managing New Technologies

First and foremost, leading farmers focus on achieving excellence in their production systems.

When examining the histories of successful farm businesses, it is common to find that early adoption of new technologies has played a critical part in their success.

Top farmers work closely with researchers and often manage projects for researchers on their farms. This way they not only see the results on their farms, but are also better able to adopt new technologies early with lower risk. Many farmers work with researchers in groups (for example, the Birchip and Liebe groups in Australia) and so are better able to have research designed for their needs.

Groups of leading farmers also work together to more effectively learn how to implement new technologies. For example, a group of 16 farmers in South Africa closely monitor one another's experiences with the introduction of precision farming technologies.

New technologies typically require higher levels of management. Leading farmers are all the time learning about potential new technologies, experimenting for tomorrow and positioning for early adoption. They recognise that the benefits from new technologies only last for a short time, so they must be constantly looking for the next opportunities for productivity gain.

Leading farmers often find it best to implement new technologies by outsourcing to expert contractors with state-of-the-art equipment. This also saves farmers capital on new equipment that may be underutilised.

Farmers Working Together

Traditional farmers typically have a strong culture of independence. In a world where scale is increasing in all parts of supply chains, small businesses need to “be small but act big” by working together.

Effective cooperation depends on high levels of trust. Where trust levels are low as in some communities, significant inefficiencies arise.

Top farmers focus on finding kindred souls who are striving for success. They build trust so that a range of working relationships can be developed.

Cooperation can be in the form of purchasing groups (one South African group of 16 farmers claims an average discount of 15 percent over all inputs), information sharing (one group of about 500 farmers in Australia conducts comprehensive benchmarking analyses), marketing groups or management groups.

Many networks of leading farmers are working together to learn from one another, share expertise and develop new management and marketing models.

Cooperation can require a change in mind-set. As one Canadian farming couple have said: “Understand your competitors – they are often your best partners.”

Becoming Market-Driven

The marketing revolution in agriculture is opening up huge opportunities for improved profitability, but unfortunately the vast majority of farmers are ill-prepared.

Leading farmers are recognising the opportunities and investing heavily in learning what it is to be a marketer. They are also developing the relationships necessary for success. They are transforming their businesses in line with customer needs and demands. By active participation with customers and constantly monitoring market trends, they can anticipate market changes and achieve rewards.

Top farmers understand that the real competition is between supply chains and that their rewards depend on the performance of all those in their supply chains. They coordinate vertically in supply chains and look for products and services for which they will be rewarded.

They are prepared to implement quality assurance and traceability systems in line with customer demands and as well, look to achieve management benefits by implementing these systems.

They recognise that margins on undifferentiated commodities will remain small and so look to develop special attribute products combined with services that add value for their customers. They also recognise that “today's niche is tomorrow's commodity”, and are thus constantly looking for the next differentiated product or service.

With globalisation and consolidation in the processing and retailing sectors, leading farmers are growing their businesses and working together to ensure sufficient volumes for market access.

Through active participation in markets and excellence in risk management, leading farmers are also better able to manage market shocks such as food safety scares or major shifts in product supply (for example, the recent huge plantings of apples in China).

Growing the Business

The drivers of change are putting pressure on farm managers to grow their businesses. But growth is not just about size. “Get big or get out” has been a catch cry of some but others are finding that they can grow their businesses by increasing profit margins and/or developing other businesses in association with their farms without having to increase farm size.

When considering growth, managers need to understand whether the constraints are primarily due to the personal capacity of the manager, the organisational structure, limited resources or a combination of these.

Over the last 30 years or so wealth creation in a typical family farm business has been largely due to capital gain (one New Zealand accountant estimates over 85 per cent of wealth creation from capital gain for that country's farm businesses). Agricultural businesses are typically asset rich and cash poor.

Leading farm business managers are determined to achieve a cash rich balance sheet. They separate their land business from their operating business and ensure that both are profitable. By having available cash, they retain decision-making control and can gain advantage from the fluctuations in agriculture's fortunes.

Very few leading farmers attempt to grow their businesses while retaining ownership of all the assets. Most leverage their capital through strategies such as syndicates, leasing, shared-farming, equity partnerships and franchises.

Many are able to attract outside investor capital through offering business propositions that meet the goals of both the investor and the operator.

As businesses grow, management systems, including excellent records and cost control, are required.

Risk Management

Traditionally the major risks addressed by farm managers have been associated with production and marketing.

As supply chains become much more coordinated and farmers cooperate more with one another, the risks of relationship breakdowns become more important.

Also, with demands for food safety/quality and occupational health and safety, risks associated with the performance of people within and outside the business must be carefully managed.

Strategic risks such as changing government policies, the positioning and flexibility of the business and changes in competitiveness are often ignored. They may have low probabilities of occurrence, but can have big consequences if such events occur.

Leading farmers are becoming skilled at developing comprehensive risk management plans. They recognise that risk is not necessarily negative – volatility can also open up opportunities.

Adding Businesses to the Farm Business

Management of farm businesses now requires the same skills as the management of any other business.

A significant proportion of top farm businesses (for example, more than half of those at a recent meeting of an alumni group of a USA agricultural executive programme) are now associated with other businesses that may or may not be related to agriculture.

This can achieve improved risk management, complementarities with the characteristics of a farm business (for example, greater cash flow) and better use of managerial, financial and physical resources.

Those who develop successful off-farm businesses take care to evolve appropriate organisational structures, including delegation to make sure that the management of their core farm business does not suffer.

They recognise the need to develop capabilities and relationships associated with new businesses. For example, one New Zealand farmer who has developed a “muffin break” franchise business in a distant city, delegated to his wife and children to operate their farm while he spent five months learning how to manage the new business.

With today's communication technologies leaders do not see geographical isolation as a barrier to developing off-farm businesses. For example, the same farmer mentioned above, is able to access real time video images of his “muffin break” store through his computer wherever he might be in the world.

Managing People

The management of people in agriculture is an area for potential major productivity improvement. Most farmers agree that people management is not one of their strengths.

Leading farmers recognise their increased dependence on the performance of people – family members, their employees and others associated with their businesses.

All over the Western world farm managers are concerned at the shortage of suitable employees who can handle the increased complexity, risks and the need for greater horizontal and vertical coordination.

Leaders now regard people as an investment rather than a cost. They focus on effectively employing all their human resources, including themselves, women and young people. They accept the challenge of creating stimulating work places that will attract people of all ages and both genders.

They understand that the best insurance policy for future success is to develop their own capabilities and those of everyone associated with their business. So they have learning plans driven by the goals of their business.

They also understand that with the changes in agriculture it is necessary to develop generic skills – those required to manage any business – skills in information management, marketing, people management, creative and critical thinking, planning, learning, etc. These skills have the added advantage that they are not “perishable” (i.e., they will be useful for a lifetime). Previously most learning in agriculture has been focussed on specialist skills that often become redundant in a short time.

As mentioned in section 4.1 on planning, leaders recognise the importance of clear written goals. If these are communicated to other people in the business, along with the plans for their achievement, then motivation and focus can be improved.

The leaders are adopting many people-management procedures used in non-agricultural businesses such as induction, job descriptions, job instruction and appraisal.

There is more emphasis on work planning, delegation and time management so that managers can spend more time working *on* the business rather than *in* the business.

Succession planning and family teamwork remain amongst the greatest challenges for family businesses and the leaders now regard these as critical management tasks.

Assessing How Well a Business Is Prepared For Success – A Ten Point Check List

The table below summarises ten key areas where leading farmers are focussing.

Table 1: A checklist for success – What leading farmers do?

1. Plan from the outside in, not the inside out (holistic or strategic approach)
2. Have written business, individual and family goals
3. Develop business plans and operational systems
4. Seek and evaluate new technologies
5. Are active in customer-driven coordinated value chains
6. Work together with like-minded people
7. Grow the business using new management models
8. Prepare risk management plans
9. Look for opportunities to add businesses
10. Achieve excellence in people development, management and succession planning

Conclusions

In spite of much gloomy publicity surrounding agriculture, top family farm businesses are making money and achieving other important goals for their owners. They have profitable farm businesses. They often have successful off-farm businesses. They invest early and wisely and perform consistently so that over time, through their operating businesses and capital gain, above average wealth is generated.

Leading farmers understand that best practices are common globally and therefore develop international networks and regard travel as mandatory.

They are “surfing” – riding the waves of change, ever alert to new threats and opportunities.

They question everything, cull sacred cows and are prepared to redefine their roles to seize the opportunities from the new agriculture.

They are passionate about what they do and seek to maximise creativity to benefit from change.

As they read the winds of global change, they especially focus on being great people managers, great marketers, and great learners.

(Note: Further detail on planning processes discussed in this paper can be found in Nell, W.T. & Napier, R.J. 2005. *Strategic Approach to Farming Success*. Published by Wim Nell, Bloemfontein, South Africa)