

Re-Defining Agriculture *January 2007*

Sustaining Agriculture in Canada through Innovation and Diversification

This document is an excerpt from the Re-Defining Agriculture position paper prepared for and by the Agricultural Institute of Canada. It lists the characteristics of Leading Edge Farm Management Teams. All farm management teams can benefit from considering these key result areas.

1. Cost Management

Top producers know their costs of production-not approximately, exactly. They know these costs as they relate to per unit production and they know them from a farm perspective. They make financial and management record keeping a top priority and have systems to do it efficiently.

This best practice mirrors the emerging industry trend of *lean manufacturing*, which has been a catalyst for increased efficiency in all economic sectors. Management tools that are features of lean manufacturing include: minimize inventory. Maximize flow, partner with suppliers, reduce capital costs, and create a culture of continuous improvement.

2. Enterprise Growth (Diversification)

Whether it is a means of spreading fixed costs or a strategy to counter cost increases enterprise growth occurs through land acquisition, the adoption of a new venture, vertical integration, strategically planned growth from within the existing operation or, growth in profit from new markets.

Top farmers know the timing of growth is as important as growth itself. In some cases strategic market development has enabled top farmers the choice to down-size their operation due to excellence in direct marketing, where profit targets are achieved with smaller farm size and lower volumes of product sold. This excellence in farm business management offers the rewards of excellence in quality of life.

3. Efficient Use of Assets

Producing more from the asset base is endeavoring to increase return for each dollar invested. In all types of farming enterprises, top farmers aim to produce more from their asset base than the average. Whether it is litres of milk, bushels per acre or pounds per calf, top producers strive to achieve higher returns.

Top producers are very inquisitive; they are always searching for new and innovative methods to improve their operation. They look for and evaluate new technology be it in genetics, nutrition, disease prevention, alternative inputs, pest management, manure management or market intelligence tools.

4. Technology

Top producers use technology as a tool to achieve higher performance. They carefully evaluate new technologies and adapt and exploit the technology if there is a return. Computers are essential for all top farmers to manage and analyze financial and production data. Computers play key roles in operating/controlling automated equipment systems, including climate control in barns, milking and feeding systems, manure management/treatment and storage systems, as well as Global Positioning Systems (GPS) and auto-steer on farm equipment.

The Internet is also used extensively for quick and easy access to market and production information and email allows for regular communication with peers and experts around the globe.

5. Marketing Excellence

In all sectors, achieving top returns is extremely important and a key factor that differentiates top farmers. Top farmers make marketing intelligence a high priority, by utilizing contracts and forward pricing, enhancing quality for specialty markets and participating in ventures that take their products one step closer to the end user.

Marketing is the easiest single way that top farmers increase net profitability and it often takes the least amount of time, effort investment, and risk. Many top farmers direct market a portion of their outputs through local businesses, farmer markets, direct farm sales or via the Internet. Marketing is the number one priority on many top farms.

6. Financial Resources

Top farmers are acutely aware of decisions that positively or negatively impact cash flow and their balance sheet. They work closely with their banker, utilize sound risk management systems and maintain and review accurate financial statements to have the means and resources to take advantage of “short-window” opportunities.

A properly capitalized business is a healthy business. Farm operations in financial trouble can often restructure through using other best practice tools such as reducing costs, networking for ideas, selected partnering opportunities, improved marketing and others.

7. Relationship Building

Innovation comes from one’s attitude and one’s networking skills. There is great value in great relationships that provide great information. Most leading farmers are active in peer groups and organizations at the local level where they see the value of being connected to their communities, as well as at the provincial and national levels where they develop personal contacts with top leaders in industry, government and universities. Innovation comes from picking up ideas from other sectors and applying them creatively to your business.

The best relationships are those that lead to clusters and value-chains. Networks and partnerships can provide increased information, marketing opportunities and reduce risk.

8. Continued Learning

The majority of top farmers have some post-secondary education and they take advantage of continued learning opportunities. They see great value in making time to capitalize on new opportunities to further their knowledge and education. They usually travel extensively for recreation, renewal and to pick up new ideas.

Technology has opened up new means to accessing education in rural regions and top farmers have taken advantage of the opportunities. The Internet and technology advancements such as teleconferencing, video conferencing and webinars make the search for knowledge much more accessible and efficient.

9. Management Team Clearly Defined

Top farmers divide management responsibilities among various individuals and fully utilize the abilities of their spouse. Good communication is an integral part of the success of farm management teams and also makes for healthier families.

In operations where management responsibilities are shared there is a clear division between roles and responsibilities. One person may look after the crop enterprise, one the livestock and another financial affairs. Whatever the breakout, top operations capitalize on the competencies of the team, with members evolving into the role most suited to them.

10. Management of Time and Logistics

Top farmers identify time management as a critical component of their success to achieve greater efficiency and profitability. They are quick to adapt new methods and tools to improve efficiency in day-to-day activities.

Cell phones are common and other communication devices are frequently used. Top producers know how to use these effectively while not becoming slaves to them. Managing a large operation can be a logistical nightmare especially in busy seasons. By increasing the efficiency of their business, leading producers find they have better control of personal time.

11. Adaptability

Diversify or specialize? There is no right answer. Top farmers appear to be consistent in their willingness and ability to adapt to market opportunities and to do so at the opportune time. They are prepared and are able to make changes quickly.

Top producers search out and analyze opportunities that will increase their revenue and spread their risk. The majority seek insight from outside advisors when making important decisions. This helps them to have the right product, at the right time, for the right market, at the right price. It is not being lucky; it is planning with the ability to adapt quickly.

12. Benchmarking

Top farmers use benchmarking to compare the performance of their farm operations against their peers. This assists them in identifying strengths and weaknesses and areas for improvement. Benchmarking is valuable in setting annual goals to improve production, set market targets and increase overall profitability.

Benchmarking helps top farmers to thoroughly understand their business. Communication technology has improved the ability of producers to access information across the nation and in different countries.

13. Risk Management

While entrepreneurial by nature top farmers prefer to limit risk wherever possible. These producers use a variety of risk management tools in running their farms. They also continue searching for new and better tools to include as part of their risk management strategy.

For example, top farmers recognize weather as an uncontrollable variable. They reduce risk by using both financial risk management tools and biological risk management tools. An example of the latter is the use of cropping systems that are more diverse and better able to provide stable yield under variable conditions. Top farmers think and plan ahead and are prepared to meet weather-related challenges with contingency plans. They are very knowledgeable about government programs and are on top of global issues, probabilities and eventualities that may affect their business. They are rarely surprised.

14. Outside Advisors

The quest for knowledge is a common trait among leading farmers. They recognize there is a limit to what one person can manage and they regularly use exert outside help from the best sources they can find. Big or small, many top farmers retain professional services of accountants, lawyers and consultants to access the expertise and knowledge required to succeed.

Some farm operations (both large and small) are beginning to set up an independent Board of Directors or Board of Advisors that include one or two respected individuals who can provide another perspective to their farm business. While this means sharing information that has traditionally been deemed confidential, farm businesses that have chosen this route are finding it takes the management of the enterprise to a new and more professional level.

15. People Management

Top farmers are good people managers whether their staff are family members or hired workers. They maintain open communication and develop loyalty and trust, which leads to good working relationships.

Family members, including spouses, siblings and children, are often a major source of labour on the farm. The roles and expectations of these members are carefully defined

and their contributions are recognized and valued. This is accomplished through scheduled meetings, detailed “to do” lists, listening and interacting with their staff.

16. Taking Time to Think

Top farmers find that taking regular time away from the business allows them to gain a new perspective and look at both challenges and opportunities from a different angle. It encourages positive thinking and re-energizes the leader.

While their neighbours may view this holiday time with envy, top producers see the importance of investing in themselves. They understand the long-term benefits of taking time to think, on both a personal and business level.

Summary

Leading farmers in the 21st century continually meet the challenges that come their way. They value education and continually search for knowledge. They are good communicators and look to develop relationships that will assist them in improving their business and its profitability. They recognize how competitive the industry is and search continuously for strategies, partnerships, and advantages to remain profitable.

They are quick to adopt new methods and technologies but are careful to analyze the value that these might bring to the operation before making a decision. They recognize the importance of applying risk management techniques to their businesses. These top producers look to and consider information from outside advisors and sources and take advantage of networking opportunities.

Top farmers have a good understanding of their cost of production and focus on being a low-cost producer. At the same time they actively seek and employ marketing strategies that enable them to capture the top 20% of prices for their products. All decisions and practices assist them to grow their business, increase profitability and strengthen their ability to be “best-of-class.”