Strategically Positioning the Farm Business

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Strategically Positioning the Farm Business

Introduction

The business of farming is dramatically different today compared to five years ago. Most people have difficulty even envisioning what fanning may look like in another five years. These changes present major challenges and opportunities for farmers. Farmers need to understand the changing nature of agriculture and carefully consider how to adapt their businesses. Those who fail to invest the time and resources into assessing and planning the future course of their business will struggle to survive beyond the next few years.

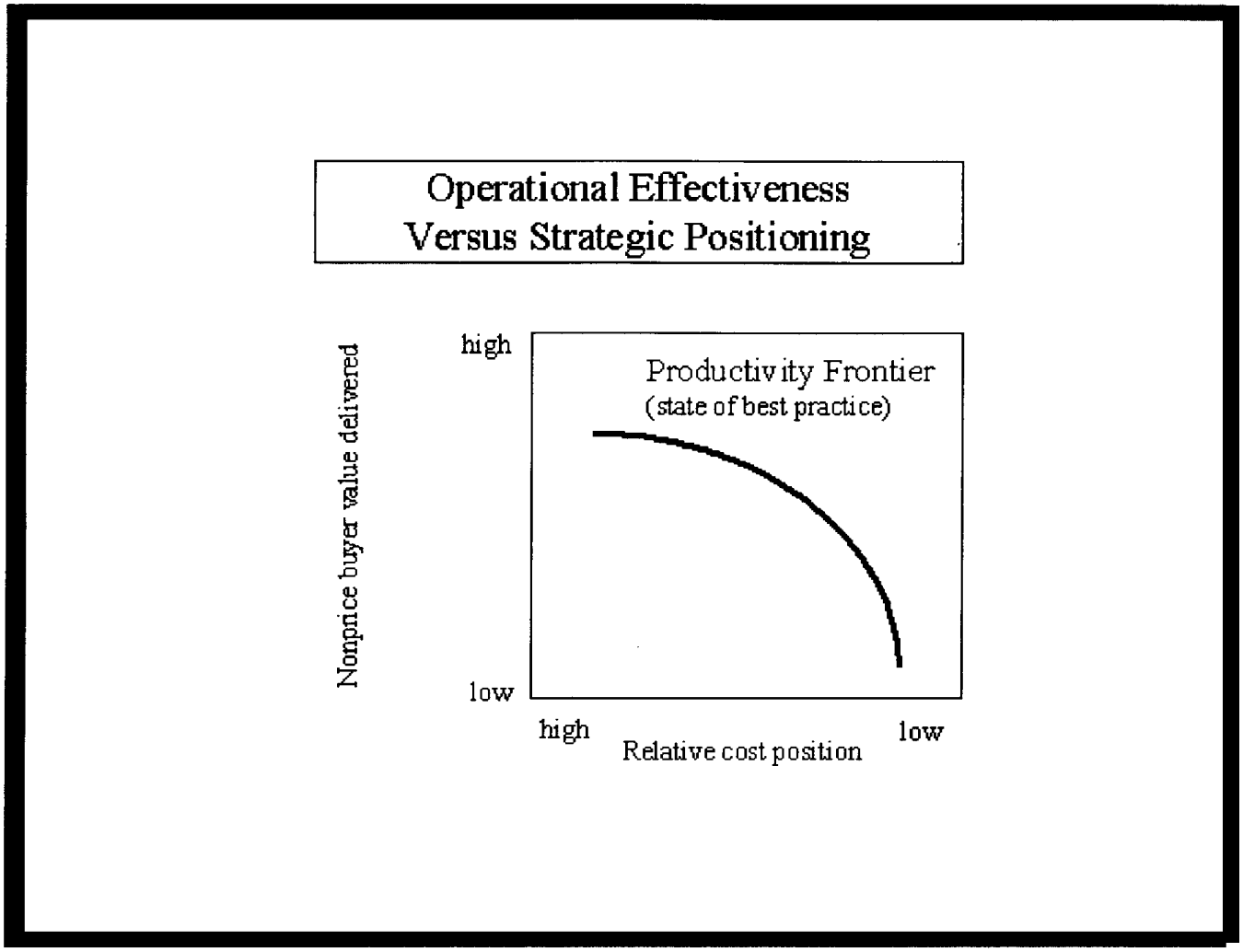
Successful farming requires a clear sense of what the firm is about and where it is headed. With the dramatic changes in the agricultural sector, at no time has the need for such clarity of purpose on the farm been greater than it is today. All farm firms are challenged to identify their competitive strengths and to develop strategies for maintaining their competitiveness. Strategic planning addresses these challenges and, as a result, strategic planning skills can be a valuable addition to the management toolkit. But planning isn't enough, the plan must be implemented, the operating performance from implementing the plan evaluated, and the plan or implementation reassessed if performance is not up to standards.

Thinking Strategically

In the past, farming success has depended primarily on the ability of management to develop an efficient operation. In producing agricultural commodities, it has been critical that management develop methods that allow the farm to achieve a cost of production better than the industry average. Successful producers have developed the skill to evaluate new technologies, assess the trade-offs between inputs and monitor their use, and make adjustments in production processes in order to achieve high levels of output and control production costs. The continual introduction of new products/technologies for use on farms has provided significant rewards for concentrating on production or *doing things tight.*

With the continued industrialization of fanning, there will be a growing importance associated with the development of a clear strategy to guide the farm business. Strategic decisions are associated with such things as the product mix of the farm, marketing linkages, and the financial structure of the business. The relationship between farm input suppliers and purchasers of farm production continues to change as identity preserved production increases. The use of contract production increases the importance of carefully selecting partners since payments for products will depend on the financial health of the partner rather than the market. In this environment, success in fanning will continue to require that operations be efficient, but there will be a growing payoff to strategic decisions or *doing the right thing.* [1]

[1] Positioning the Farm Business; Miller, Boeh1je, & Dobbins p. 1



Michael Porter, Harvard Business Review, November-December, 1996

Figure 1. Operational Effectiveness versus Strategic Positioning

Operational Efficiency and Strategic Positioning

As the agricultural sector continues to change rapidly, successful producers will also need to change their approach concerning how they participate in agriculture. Improving operational efficiency has proved very successful for agricultural producers. Those who excelled at being low cost, high output producers have been rewarded with higher than average returns. In the future, maintaining operational efficiency will be imperative, but it may not be enough.

Figure I illustrates a productivity frontier that constitutes the sum of all existing best practices at any given time. The productivity frontier is constantly shifting outward as new technologies and management approaches are developed (Porter, 1996). As the majority of farmers adopt new production technologies, the competitive advantage for that technology disappears. As farmers continually adopt new technologies, and improve their productivity they engage in a race that moves

the productivity frontier ever outward. Porter states, "As rivals imitate one another's improvements in quality, cycle times, or supplier partnerships, strategies converge and competition becomes a series of races down identical paths that no one can win. Competition based on operational effectiveness alone is mutually destructive, leading to wars of attrition that can be arrested only by limiting competition. " This sounds like an appropriate description of what has been happening in agriculture, productivity continues to improve while profit margins tighten and more producers go out of business. Maybe it is time to help producers focus more attention on strategic positioning.

As illustrated in Figure 2, strategy is concerned with what is to be done and operations is concerned with how products are produced and marketed. A clear strategy and effective operation - quadrant I - leads to success. An unclear strategy and ineffective operation -quadrant IV - leads to failure. In quadrants II and III the outcome is less clear.

Strategic and Operational Performance

HOW	WHAT	
	Clear Strategy	Unclear Strategy
Effective Operations	I Equaled success in the past and will in the future.	II Equaled success in the past, but success is doubtful in the future.
Ineffective Operations	III Sometimes worked in the past in the short run, but competition makes success doubtful in the long run.	IV Equaled failure in the past, and will in the future.

Figure 2 Source: Positioning the Farm Business, 1998

The strong production focus of most farmers has resulted in farms possessing a highly efficient operation. In some cases, the efficiency of the operation has been able to compensate for an inability to predict or quickly recognize what changes in consumer demands, changes in government policy, actions of competitors, and the introduction of important new technologies mean for the farm business. Having an efficient operation provides some "breathing room" for the farm business in this situation.

However, efficient operations are not sufficient to assure success. As production agriculture continues to industrialize, it will become increasingly important for management to monitor the economic environment for new opportunities and developing threats.

Quadrant III indicates that defining a clear strategy and identifying when to make changes to the strategy is also not sufficient for long term success. For example, farmers have long recognized the importance of monitoring changes in technology. As new technologies are introduced there is frequently an advantage to being an early adopter. However, if the adoption of the technology results in a less efficient operation, the advantages of early adoption may be lost. As more farms adopt the new technology and are able to increase their efficiency, the less efficient will be at a disadvantage.[2]

[2] Positioning the Farm Business, p. 2

With the pace of change occurring in agriculture today, the producer who takes the time to sit down and think about how to strategically position the business will be in a much better position to achieve financial success than the producer who just continues fanning. The agriculture of the future will probably not reward the producer who has not invested time and energy into thinking innovatively, honestly, and strategically about the future.

Components of the Strategic Planning Process

Systematic strategic planning processes usually incorporate the following basic elements:

- Determine mission and goals.
- Evaluate the external opportunities and threats to the business.
- Internally analyze the farm's strengths and weaknesses.
- Evaluate potential strategies for the farm business.
- Develop an implementation plan for selected strategies.

Purdue University's paper "Positioning the Farm Business" and the accompanying exercises have sections that address the entire process of strategic planning. This presentation will be limited to evaluating the external opportunities and threats to the business and discussing how to analyze the farm's strengths and weaknesses.

External Opportunities and Threats

David Kohl in his presentation "Thinking outside the boxes" mentions a number of observations about agriculture that wake up audiences to the importance of considering the external factors impacting agriculture. Included in his talk are:

- In 1990, 40 percent of farms were profitable, the other 60 percent were living a lifestyle. In 1998, 20 percent of farms are profitable, 80 percent are living a lifestyle.
- Previously one bad year could be made up in three to five years, now it can require five to ten years to recover from one bad year.
- Two thirds of farm debt is variable rate. A one percent change in interest rates causes about a six to eight percent change in farm profits.

There are a number of forces driving the changes in agriculture. Some of the primary ones are listed in the Figure 3.

The New Agriculture
International Competition
Industrialization
Differentiated Products
Food Supply Chains
Information/Precision

Figure 3 Source: Michael Boehlje

Farmers who understand some of the driving changes in agriculture and who have the ability to adapt in a timely manner will have an advantage in the new agricultural environment.

International Issues

- the global markets and international competition impacts on US prices
- the impact of global issues such as the Asian crisis on US farm profitability
- exchange rates and the impact of a strong or weak dollar on exports
- movement of production to low cost countries and to countries with less environmental regulations, such as western European hog production moving to eastern European countries
- global access to technology and increased production capacity

Industrialization of Agriculture Issues

- growth in a manufacturing mentality in agriculture
- efforts to reduce variability in products
- trends toward management and labor versus independent operators

Differentiated Products

- consumer and processor demands
- identity preserved products
- value-added opportunities
- commodities becoming less important

Food Supply Chains

- who will control them
- market access
- contract production
- flow scheduling

Information/Precision

- powerful monitoring systems
- huge databases
- communication/information linkages
- real time information

Analyze the Farm's Strengths and Weaknesses

An important part of determining how a farmer will position the business for the future will depend on the existing strengths and weaknesses of the business. Conducting the exercises described on the following pages can help determine the comparative advantages and unique potential for a particular business.

Positioning the Farm Business

Strengths and Weaknesses

Strengths and Weaknesses

Resources, capabilities, and core competencies are critical in creating a future for the farm. A knowledge of your strengths will help you keep focused and see new business opportunities. Weaknesses will inject a dose of reality into your planning. Identify the strengths and weaknesses of your farm business.

Strengths	Weaknesses
1. Products or Services: _____ _____ _____	_____ _____ _____
2. Operations/Production Processes: _____ _____ _____	_____ _____ _____
3. Marketing/Purchasing: _____ _____ _____	_____ _____ _____
4. Human Resources: _____ _____ _____	_____ _____ _____
5. Organization/Business Structure _____ _____ _____	_____ _____ _____
6. Goodwill/Public Relations _____ _____ _____	_____ _____ _____

Strengths	Weaknesses
7. Financial and Physical Resources: _____ _____ _____	_____ _____ _____
8. Production Technology: _____ _____ _____	_____ _____ _____
9. Information Management: _____ _____ _____	_____ _____ _____
10. Channel Linkages/Key Relationships: _____ _____ _____	_____ _____ _____
11. Management Team: _____ _____ _____	_____ _____ _____
12. Other _____ _____ _____	_____ _____ _____

Review the lists in 1 through 12 and circle the following:
The three strengths that are the most important for the farm to build on in the future.
The three weaknesses that are the most important for the farm to overcome if it is to succeed.

Positioning the Farm Business

Strengths and Weaknesses

Evaluation of Management Strengths and Weaknesses

Place a checkmark under the number indicating the level of skill.

		High									Low
		10	9	8	7	6	5	4	3	2	1
1.	Crop Management	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
2.	Livestock Management	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
3.	Marketing	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
4.	Purchasing	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
5.	Mechanical ability	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
6.	Building construction skills	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
7.	Personnel management	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
8.	Financial management	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
9.	Securing resources	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
10.	Physical endurance	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
11.	Emotional endurance	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
12.	Analytical ability	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
13.	Decision making	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
14.	Ability to act & accept risk	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
15.	Communication skills	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
16.	Negotiation skills	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
17.	Leadership skills	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

Adapted from: Kadlec, John E. Farm *Management,* Prentice-Hall, Inc., Englewood Cliffs, NJ, 1983.

What Does This Mean for Producers - Strategic Issues?

Producers are facing an agriculture that will reward those who take the time to analyze options and carefully plan for the future. This section outlines a number of strategic issues that producers should consider as they plan the future direction of their business. Each issue is followed by a few questions. These questions are simply to start a thinking process. Most agricultural professionals and producers will be able to add important questions and concerns to these lists. Of particular importance are industry specific questions. The issues for pork, dairy, beef, and crops are different and need to be addressed individually.

1. Business products and size

Differentiated products, the industrialization of agriculture, and food supply chains are all changing the mix of products that farmers produce. Some producers will participate in only one segment of the production process, some will specialize in very specific products, and others will diversify. In addition, economic forces continually cause producers to examine the size of their business and, increasingly, even the location of their businesses.

Questions:

- What products are you going to produce?
- What technologies and methods will you use to produce them? How big will your operation be?
- Will you specialize or diversify?
- Where will your business be located?

The next two pages list strategies that may be considered when evaluating the business products and size.

Positioning the Farm Business

Doing the Right Thingl

Size/Growth/Downsizing

There are nine strategic size/growth/downsizing options available to the firm. Six of these options deal with growth (increased income or volume, but not necessarily facility size). The other three explore non-growth options.

1. Focus/Specialize - "Stick to your knitting" is a very applicable cliche in this context. The focus of much of a producer's managerial time is committed to improving efficiency and reducing cost. Lower cost producers will tend to have the ability to stay competitive and maintain future operations. Concentrating on one activity (farrowing or finishing, or hogs rather than hogs and grain) can aid in cost reduction through a more intensely managed operation.

2. Intensify/Modernize - The ability to push more production through the same fixed asset base is the concept. A more intensely run operation spreads fixed costs over greater output, lowering the overall cost of production. Accomplishment of this strategy is possible through both a more intensely managed current operation and the adoption of more modem, more intense production technologies.

3. Expand - The most common strategic move for many producers is expansion of facility size. This over-used method has merit after all possible efficiencies have been exploited with current facilities.

4. Diversify - Diversification, the opposite of specialization, involves the addition of new enterprises to the firm. Generally this option is considered a risk-reducing method. However, due to the fact that the economic forces that affect one agricultural enterprise generally affect others, this option may not be as advantageous for risk reduction as one might think. Diversification may also cause management time to be spread too thinly across enterprises. Diversification may have more potential in the exploitation of synergy by capitalizing on such factors as: underutilized skills and/or resources, multiple products in the same marketing channel, or knowledge and management skills. And if one is serious about diversification as a risk reduction strategy, then the alternatives considered should include investments that are not subject to the same fundamental economic forces that impact agriculture. Such alternatives might include stocks or mutual funds, bonds, nonagricultural businesses, or residential or commercial real estate. Expertise should be obtained in choosing among these investments, just like the best information and expertise is used to choose among various farm or agricultural investments.

5. Replicate - When growth of the firm is the desired course of action, one option to consider is replication of an existing operation on a different site rather than the expansion of the current unit. This option allows for decentralized management in smaller units. It is the multi-plant strategy of the industrial complex. This option becomes important in livestock production as issues of odor nuisance and waste handling become more critical.

6. Integrate - Moving forward, backward, or horizontal into production/processing may provide real benefits to the system. An example is packing plants on the East Coast raising hogs for their plants. This activity helps the packers eliminate some variability in quality and supply. An example for moderate size hog producers is becoming part of a cooperative gilt multiplier to supply replacement gilts.

7. Network - There are proven economies of size in production and marketing in crop and livestock production. Expanding a single firm to the size where those size benefits are available is not always the most prudent option. Networking allows a group of smaller operators to look like a **large operation** to the marketplace.

8. Delay/Wait and See - The decision making team may survey current conditions and determine that they are not sure what direction to take. In the short-run, inaction may have merit. Buying time may provide for new opportunities to manifest themselves. But the key issue with this strategy is to develop a decision trigger that will result in action.

9. Exit - There are many in farming who are surveying their situation and wondering if continuing to operate is the most logical plan. Therefore, one strategic size option is a planned ceasing of operations.

These nine strategic size/growth/downsizing options are shown graphically in Figure 5. Starting at the top of the diagram, the initial decision is to either move toward making a decision or delaying. If you use the delay option you need to establish a definite decision trigger that will cause you to move toward a decision. If the decision is to grow/improve, then you should go through the three-step process of focus, intensify, expand. This means to increase the focus on your existing business, intensify the management, and expand your core business. In essence this means to strive to improve what you are currently doing. Most firms will go through this three-step process several times in an attempt to continuously improve.

Once you have gained the maximum advantage in your existing operation, you should consider additional ways to improve or to expand your business. These include: diversify, replicate, Integrate, or network.

2. Determining alliances and partnerships

Partnerships and alliances are becoming ever more important in agriculture. The relationships a producer develops with producers, suppliers, lenders, and marketing channels may well determine the future direction of the farm business and the products that it will produce.

Questions:

- Will you participate in production alliances with other producers?
- Who will you partner with for capital?
- What alliances will you build for inputs, services, and information?
- What production systems will you use?
- How will you participate in food supply chains?
- What consulting services will you partner with?
- Who will be part of your legal and financial team?

3. Marketing channels

Traditional commodity markets are becoming less important, although they are still dominant for many commodities. However, contractual arrangements, linkages with end-users, and niche markets will continue to expand, while more traditional market channels shrink.

Questions:

- Will you have access to markets you want in the future?
- Which production and marketing contracts will you sign?
- Will you form marketing or purchasing alliances?
- Will you participate in value-added endeavors?
- Will you employ marketing services or consultants?
- Will you develop direct marketing linkages to end-users?
- Will you enter a niche market, such as organic products?

4. Adapting appropriate technology

New technologies, biotechnology developments, integrated production systems, and company mergers are difficult topics for the typical farmer to remain knowledgeable enough about to make informed decisions. Decisions about technology adoption can have far reaching consequences that can be either positive or negative. Investments in some types of new technology are very expensive. Even more expensive in the longer run might be selecting emerging technology that fails.

Questions:

- What technology moves you towards goals in other areas?
- Should you adapt technology-assisted processes internally or externally?
- What level of technology are you comfortable with?
- What are you not doing now that you would like to do?
- What job/process do you hate and would like to automate?

5. Preparing for accountability

Farm accountability is escalating in a number of areas that may have a serious impact on agriculture in the next few years. Regulations and social expectations will continue to force farmers to be more environmentally accountable for the consequences of their farming activities. Concerns from rural residents about manure odors and community attitudes toward large livestock facilities compound the environmental accountability farmers will need to address. Consumer attitudes toward food safety and the high technology efforts to be able to track food from the farm to the table will add significant accountability to farm practices.

Questions:

- How will you track government regulations concerning the environment, chemical use, drug use, permitting and other areas?
- How will you stay informed and ahead of new regulations?
- Do you have review processes and plans to deal with regulatory issues?
- Are you preparing for food safety traceability from end use to point of origin?
- How will review and manage legal liabilities?
- How will you inform the end-user of your stewardship?

6. Managing information

Many companies now have management information systems and employees. Farmers also need to manage huge volumes of information. In addition, they need to manage information that covers a large number of very diverse and complex subjects. Equally important will be the need to filter out unnecessary information. Just because the software system being used allows a producer to collect information does not mean the information is valuable.

Questions:

- What information do you need to know or want to know?
- What is the price of getting what you want to know?
- How will you avoid tracking excess information?
- How will you filter and summarize information into manageable quantities?
- When will you use outside consulting services?
- What software systems will you use?
- How will you employ precision technology?

7. **Frequent monitoring**

Annual performance monitoring has probably been the exception rather than the norm for US agricultural businesses. In the future, the successful businesses will not only need to monitor annually, but will probably monitor both financial and production measures monthly or in some cases, more frequently. Many producers already understand the need for frequent performance monitoring so they can make quick adjustments to changing situations.

Questions:

- How will you monitor your financial situation quarterly, monthly, or weekly?
- How will you monitor critical factors to continually evaluate production efficiency and to identify potential problems before they begin to cost money?
- How will you move toward a system of real time intervention that will help you make adjustments to save or make more money?
- What monitoring provides useful information?

8. Transferring management

Farmers generally considered themselves independent managers in the past, but now knowing how to transfer management capabilities to others in the operation may well determine whether the business will prosper in the future. Management capabilities may need to be transferred to the next generation, to employees, to partners, or to other relatives.

Questions:

- How will you transfer management capabilities to other family members, managers, and employees?
- What contingency plan do you have if the farm manager suddenly can no longer manage the business?
- Who is management, who will be management?

Strategic Risks Associated with Agriculture

Most of the risk analysis in the agricultural sector has focused on the tactical or operational risks that are associated with production and prices or debt use. Recently, however, strategic risk is receiving more emphasis. The focus of strategic risk is the sensitivity of the strategic direction and the ultimate value of a company to uncertainties in the business climate. These uncertainties include: 1) political, government policy, macro-economic, social, and natural contingencies, and 2) industry dynamics involving input markets, product markets, competitive and technological uncertainties. Some examples of strategic risks are summarized in next figure. Tactical or operational risk is easier to manage than strategic risk, in part because of the information available to measure these risks, and because of the availability of accepted tools and techniques to transfer risk to others, such as insurance and futures markets.

Most strategic risks cannot be managed or transferred through conventional futures or insurance instruments or markets. Strategic risk is multidimensional, so managers cannot assume the simple one-to-one mapping between exposures and hedging or insurance instruments. Creative strategies must be developed to manage strategic risk exposure; approaches include flexibility, adaptability, and diversification. In essence, managing strategic risk requires the development of backup or contingency plans. One of the better techniques for doing planning is to do "what-if" analysis (ie., what is my best response if a particular event occurs?).

One of the strategic risks farmers are facing because of the industrialization of agriculture is contractual or relationship risk. The expanding use of contractual agreements and other forms of negotiation-based linkages between the various stages within the agricultural production and distribution system, combined with the decline in impersonal, market-based transactions, results in

price risk being replaced by relationship or contractual risk for many businesses. A grower may have a contract that guarantees a price for the crop, but what-if the processor goes bankrupt? What-if the processor finds suppliers in other areas who can satisfy their needs at a lower price? What-if I lose my contract?

Another strategic risk that seems to be increasing in recent years is that of regulatory risk. Farm firms are facing increasing regulation in all aspects of their business transactions. Added to the traditional areas of regulation concerned with transportation, taxation, and labor use are two rapidly growing regulatory areas; food safety and the environment. Strategic risk analyses would ask for example: What-if the regulations change and my waste handling and disposal system no longer is in compliance with the new regulation? Developing a contingency plan for these risks will be increasingly important for the long-run survivability of many farm businesses. [3]

[3] Positioning the Farm Business p. 85

Positioning the Farm Business

Strategic Risks

Potential Strategic Risk Factors in Agriculture

Source	Hypothetical Examples
International	• Political unrest in another country or region leads to economic sanctions against importers of U.S. farm products. • Instability in foreign financial markets reduces exports of U.S. farm products.
Government Policy	• A new administration enacts a Farm Bill that eliminates or drastically alters payments to agricultural producers. • The U.S. reduces its efforts to liberalize international trade.
Government Regulation	• Environmental regulatory agencies limit nitrogen use on farm fields. • NRCS prohibits a popular tillage or cropping practice in order to implement more stringent standards for maintaining crop residue.
Macro-Economics	• Comparative advantage for large-scale pork production shifts to areas outside the U.S. • Farmland values start to decline steadily.
Social	• U.S. citizens decide that a popular animal production practice is not humane. • Farming is perceived as the reason that water quality continues to decline.
Natural	• Continued loss of effective antibiotics for treatment of human disease sharply curtails the use of antibiotics in animal production. • Access to irrigation water is threatened by competition for water with fast growing cities.
Industrialization	• Changes in the way the pork production process is managed cause older production systems to become obsolete. • Contract production limits the access of independent producers to high value markets.
Technological Uncertainty	• Patenting of biotechnological breakthroughs and proprietary management of information limit the access of independent producers to the best information and technology. • The tools farmers need to evaluate the causes and effects associated with site specific farming databases are never developed.
Competitive Conditions	• Increasing influence of regional trading blocs, non-tariff trade barriers, and private trade initiatives put U.S. producers at a disadvantage in world markets. • Competition for farmland reduces the opportunity for share rental arrangements.

Positioning the Farm Business

Strategic Risks

The Universe of Risk

Categories of Risk	Illustrative Sources of Risk
Financing and Financial Structure	debt servicing capacity, leverage, debt structure, non-equity financing, liquidity, solvency, profitability
Market Prices and Terms of Trade	product price volatility, input price volatility, cost structure, contract terms, market outlets and access
Business Partners and Partnerships	interdependency, confidentiality, cultural conflict, contractual risks
Competitors and Competition	market share, pricing wars, industrial espionage, antitrust allegations
Customers and Customer Relationships	product liability, credit risk, poor market timing, inadequate customer support
Distribution Systems and Channels	transportation, service availability, cost, dependence on distributors
People and Human Resources	employees, independent contractors, training, staffing adequacy
Regulatory and Legislative	export licensing, jurisdiction, reporting and compliance, environmental
Political	civil unrest, war, terrorism, enforcement of intellectual property rights, change in leadership revised economic policies
Reputation and Image	corporate image, brands, reputations of key employees
Strategic Position and Flexibility	mergers and acquisitions, joint ventures and alliances, resource allocation and planning, organizational agility
Technological	complexity, obsolescence, the year 2000 problem, work-force skill-sets
Financial Markets and Instruments	foreign exchange, portfolio, cash, interest rate
Operations and Business Practices	facilities, contractual risks, natural hazards, internal processes and controls

Source: Adapted from Teach, Edward, "Microsoft's Universe of Risk" CFO, pp. 69-71, March 1997

Figure 5

Assessing Your Strategic Risks

Strategic risks arise on the farm when: 1) strategy is unclear, 2) strategy is clear, but implementation is ineffective, and 3) strategy is clear and effectively implemented, but no longer relevant. Any one of these conditions can lead to undesirable consequences for the farm business. Strategy that is clear and effectively implemented, but not longer relevant can occur when a manager either: 1) loses touch with the forces outside the farm gate that shape the industry and the business environment, 2) misreads the signals coming from outside the farm gate, or 3) is not willing or able to change in response to industry dynamics.

Can you identify any instances when your farming strategy(s) is:

1. Unclear or non-existent?

2. Clear, but implementation needs improvement?

3. Clear and effectively implemented, but no longer very relevant, given changes in the industry?

Rating Your Risk Exposure

Rate each of the products your farm produces in terms of the following risk-rating matrix. Industries that are attractive have characteristics such as strong growth in demand, better than average profit margins, etc. For example, the hog industry might be viewed by some people as a more attractive industry in recent years than the beef industry. Farm competitiveness refers to a farm's competitiveness at producing the product in question rather than the farm's competitiveness overall. If the farm produces only one product, then it is highly exposed to the industry in question.

Farm Product Mix Risk Rating

Industry's Attractiveness	low	average	high	Exposure to this Industry
high	average risk	low risk	low risk	high
average	high risk	average risk	low risk	average
low	high risk	high risk	average risk	low

Farm's Competitiveness

Your Strategic Risks

Think back to the opportunities and threats that you identified earlier, as well as the strengths and the weaknesses of your farm operation. With these in mind, identify the top three strategic risks facing your farm business at the current time. Try to think of action you could take in response to each risk that would reduce the risk.

Strategic Risk #1:

Response:

Strategic Risk #2:

Response:

Strategic Risk #3:

Response:

Conclusions

David Kohl describes his perspectives on the peak performing ag executive as shown in Figure 6. Many of these characteristics are what have been described in this presentation as necessary for strategic positioning and strategic risk management.

Perspectives on the Peak Performing Ag Executive
Measure financial performance
Strategic thinkers
Objectively assess strengths & weaknesses in themselves / people
Think in systems rather than components when looking for improvement
Risk takers but excellent risk managers
Evaluate but-what-if scenarios & contingency plans
Seek input and expertise from outside
See changes as opportunities, don't see themselves as victims
See themselves as head coach rather than boss
Balanced approach to management of key performance areas
Spend time monitoring and analyzing performance
Use judgement rather than emotion
Creative and innovative
Communicators

Figure 6 Source: David Kohl

The agriculture of the future will be an industry in which the pace and magnitude of change continues to escalate. The producer who watches the changes occur will struggle. The producers who slow down to think about the external forces driving their particular agricultural sector, who spend time analyzing the strengths and weaknesses of their business, who develop strategic alternatives for their business, and consider what-if scenarios will be in a good position to take advantage of the opportunities in agriculture. But they will need to invest time, energy, and resources into thinking creatively, honestly, and strategically.

In addition, they will need to draw upon high quality outside resources. The manager who will succeed will be able to identify people who can form a team to evaluate opportunities and strategies for individual farm businesses.

Agricultural professionals who can help producers develop strategic management approaches that take advantage of opportunities in the rapidly changing agricultural business environment will be invaluable. The customers of most agricultural professionals are facing a radically different agriculture from that which existed several years ago. How agricultural professionals adapt to provide radically different services will determine how well they survive also.