

# Strategic Positioning for Successful Farmers

**Michael Boehlje and Brent Gloy**

**Center for Commercial Agriculture**

**Purdue University &**

**Ag Economic Insights, LLC**

# What Is Strategy?

- How a business creates value for its customers
- The key questions
  - Who? – customer focus
  - What? – products/services
  - How? – processes/procedures to deliver
- Doing the right thing (doing things right is operations)

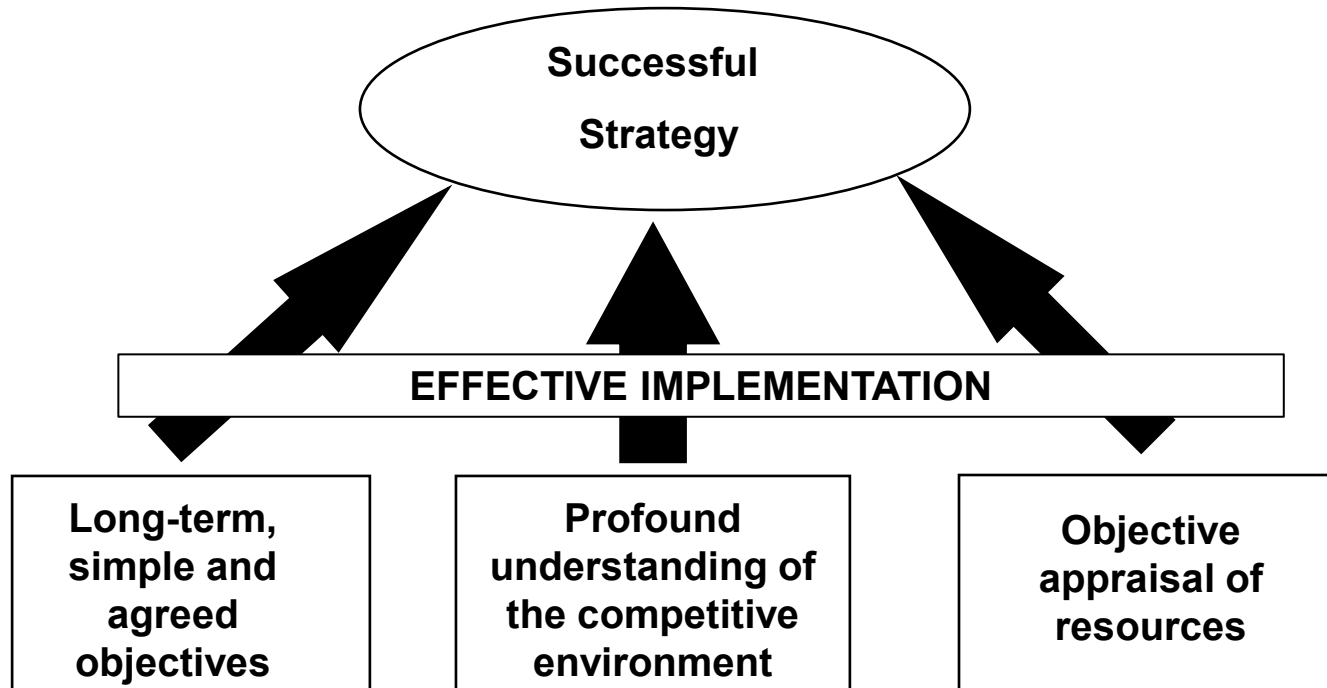


# What is strategy?

- Strategy is....
  - Looking longer term
  - Capitalizing on change
  - A stream of decisions
  - Focused on a purpose
  - Managing strategic risks
  - Creating a unique and valuable position
  - Choosing what not to do

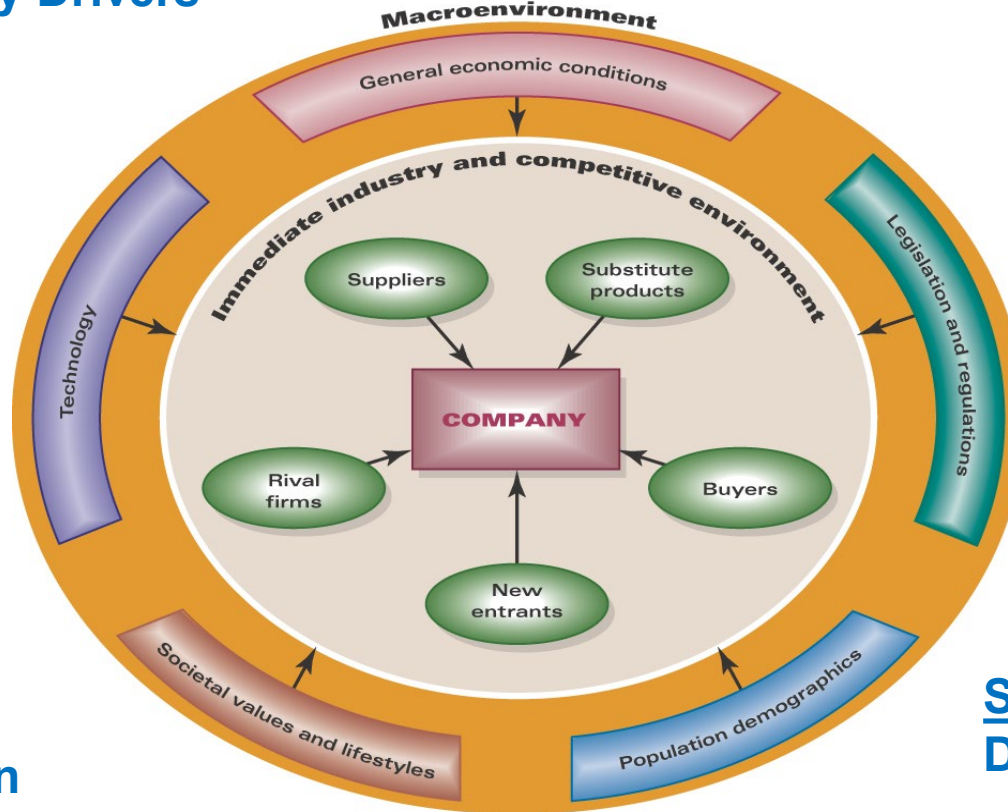


# Common Elements in Successful Strategy



# Looking Outside the Business

## Identifying Key Drivers



Anticipating  
changes in Drivers  
and impacts on the  
industry

Capitalizing on  
changes in drivers

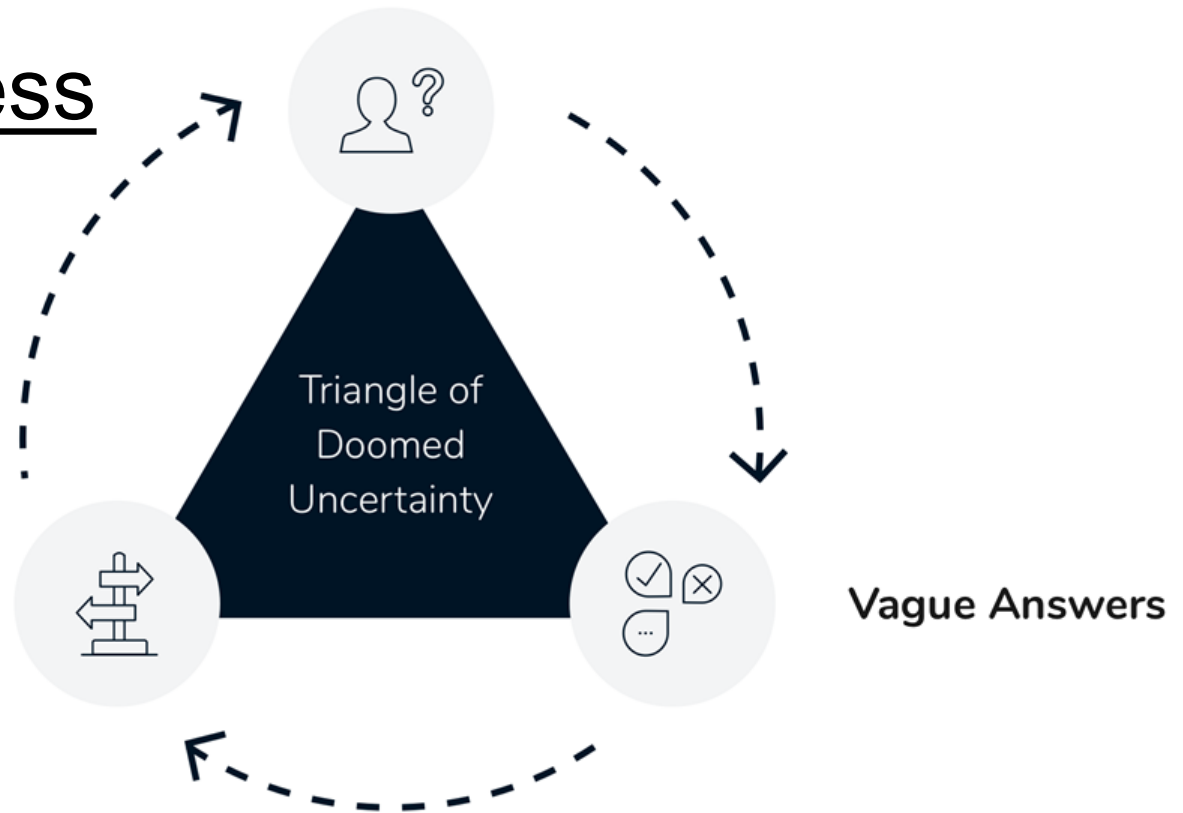
Shaping the  
Drivers

# Making Better Decisions

# A broken process

Resolution:

- 1) Never revisit, or
- 2) Hindsight 20/20



# A Better Process





# Key Tool: Utilize Decision Journals

- It can be specific, or broad
  - “Should I sell corn this week?”
  - “How can I improve my grain marketing for 2020?”
- Capture as much as possible
  - Use pre-set questions to expand your thinking
- Review!



# Key Questions for Reflection

- What do you expect to happen?
- Why do you expect this to happen?
- What alternative decisions/actions did you consider?
- What is your estimate of the probability that the decision will be successful?

# An Exercise

What is the probability that the U.S. inflation rate - [measured by the Personal Consumption Expenditure Index](#) – is higher than 6% for 2023?

- What do you expect to happen?
- What assumptions are behind this expectation?
- What decisions/actions are you considering as a result of your expectation?
- What is your estimate of the probability that the decision will be successful?

# Modern Farming: From “Growing Stuff” to Precision Production



# Data and Information are Key

- To be VALUABLE, data must help make better informed decisions
- What characteristics of data are required to do this?

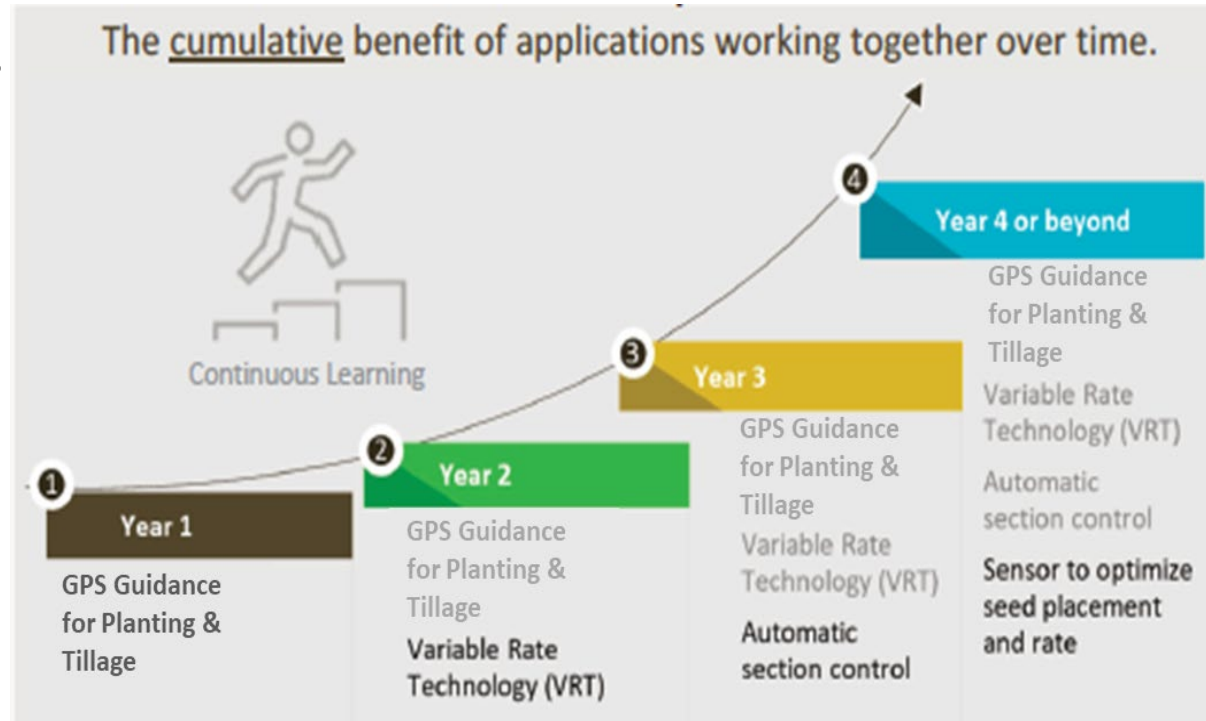
# Critical Characteristics of Data

1. Timely
2. Accurate
  - \*Granularity
  - \*Distributions vs. point estimates
3. Objective
4. Understandable
5. Convenient
6. Context Specific
7. Decision Focused



# The Payoff of Precision Farming

1. Cost Reduction and Efficiency Improvements
2. Value Enhanced Differentiated Products
3. Span of Control
4. Reduced Downtime and Better Capacity Utilization
5. Risk Reduction
6. Landlord/Supplier and Buyer Relationships
7. Enhanced Value of Property

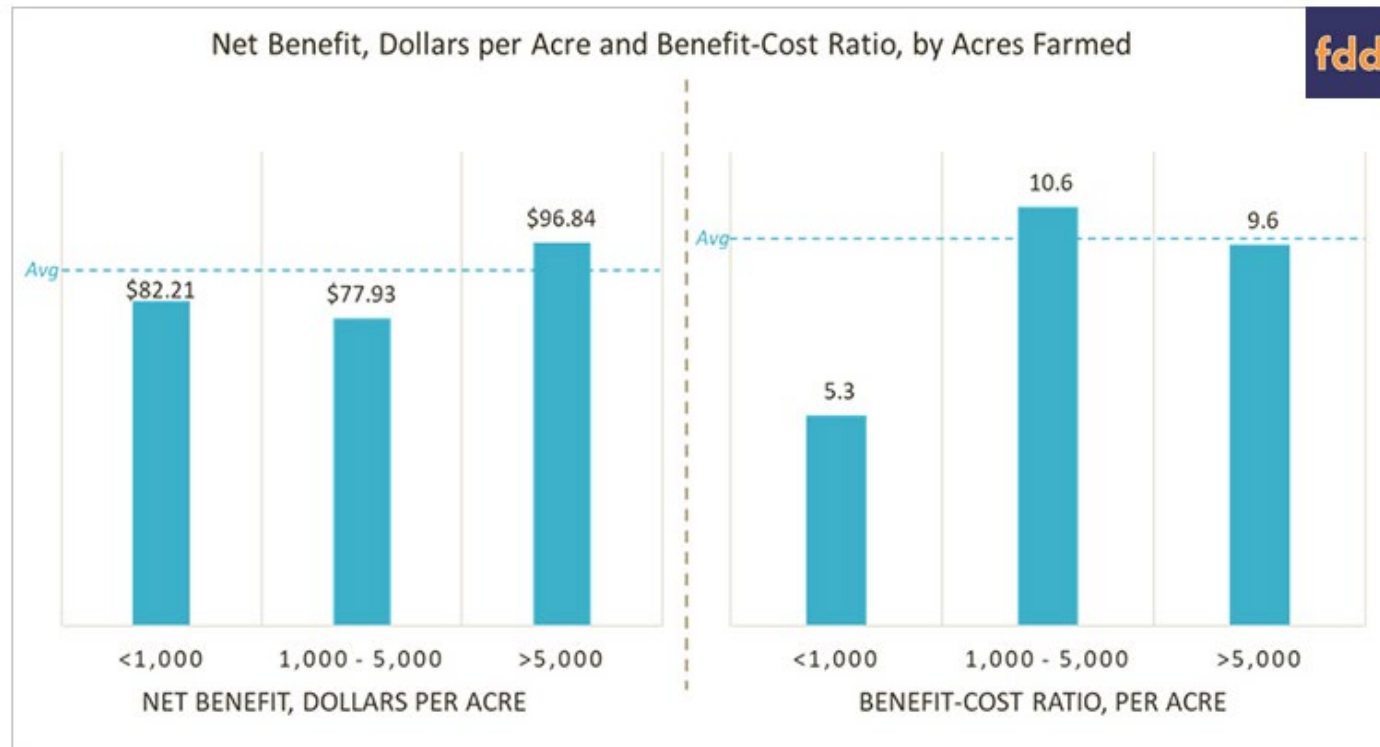


# The Pay-off – Numerical Evidence

- In-depth interviews of early adopters of precision agriculture technology
- 25 tools and practices included
  - Legacy Control Systems (e.g., yield monitors and auto steer)
  - Mapping
  - Agronomic/Fertility Systems (e.g., grid/zone soil mapping, variable rate technology, sensors)
  - Monitoring Systems (e.g., drones or aerial imagery)
  - Decision Support Technologies (e.g., analytics, management systems)



# Whole Farm Benefits of Full Package Adoption of Precision Farming Practices



# Critical Additional Benefits

## For the Value Chain

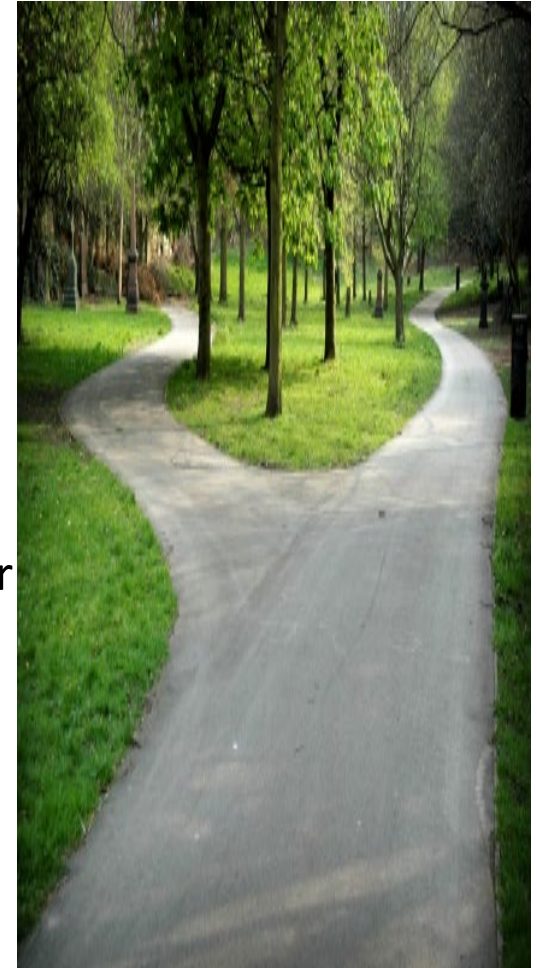
- 1) Food Safety
- 2) Sustainability
- 3) Traceability

## For the Environment

- 1) Reduced Fertilizer and Chemical Leaching/Runoff
- 2) Comprehensive Nutrient Management
- 3) Conserving Irrigation Water

# Strategic Positioning Options: Critical Choices

- Example of Possible Positions in an Agricultural Production Firm
  - Low-cost, bulk commodity producer
  - Customer-oriented specialty products producer
  - Full-service, consumer-focused custom farming operation
  - Efficient, partnership-focused contract animal feeder
  - Technology-focused, cutting-edge animal breeder



# Commodity Strategy

- **Production Emphasis** — the focus is primarily on production activities rather than marketing or finance
- **Manufacturing Mentality** — the science and systematic process of producing food products rather than the art of raising commodities is emphasized
- **Low Cost Producer** — cost control is critical to being competitive in a commodity business
- **Large Scale Operation** — larger scale operations generally have cost advantages over smaller scale units
- **Outsource Resources** — land is rented; machinery is leased or custom hired
- **Open/Impersonal Markets** — markets are open to all who meet gross commodity product standards at publicly known prices
- **Downside Price Risk** — excess worldwide production can result in significant downward price movements
- **Independent Decision-Making** - the traditional independent farmer provides most of the managerial and other resources and makes most of the decisions

COMMODITY

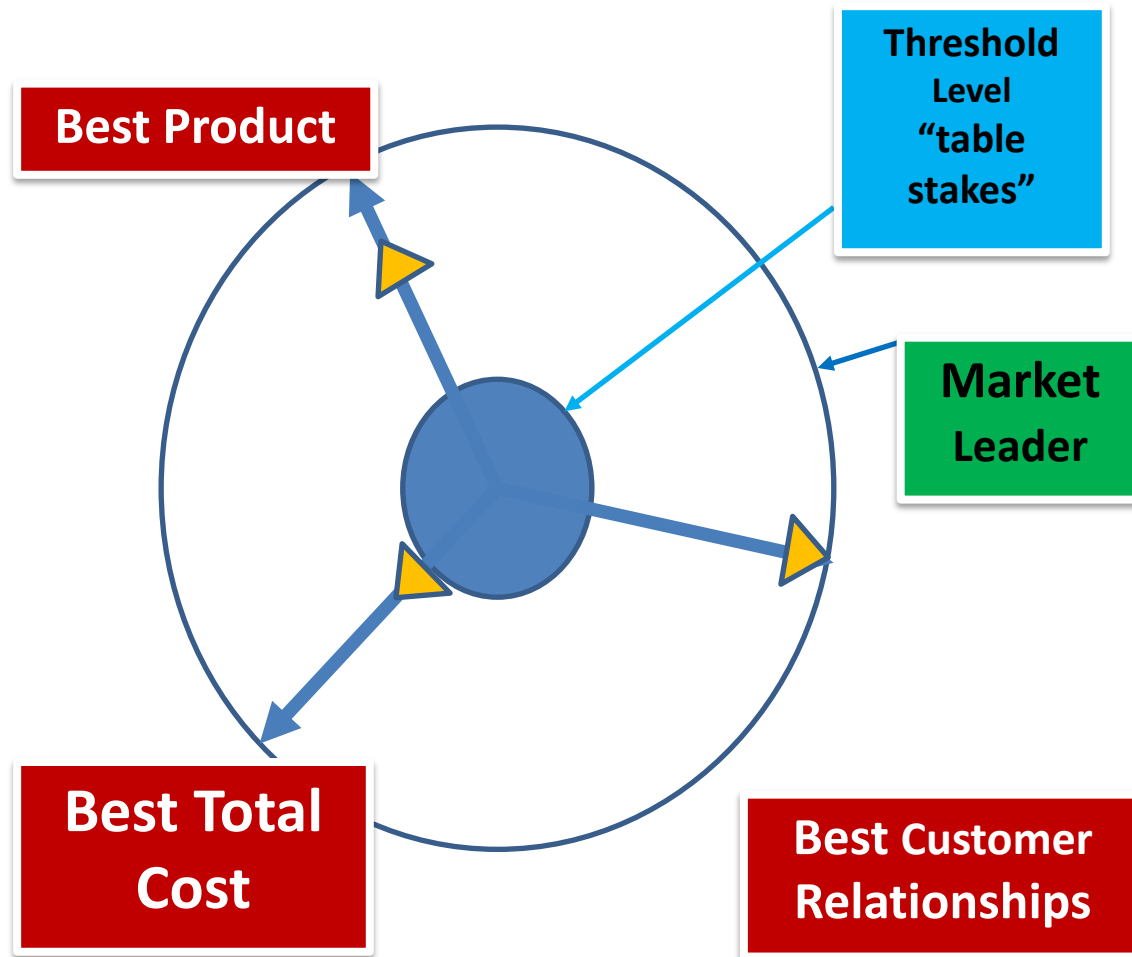


# Differentiation Strategy

- **End-user Focus** – the focus is on a final consumer or food processors needs rather than commodities
- **Distribution/Marketing Mentality** – marketing and distribution decisions and expectations of consumers are as (or more) important than production considerations
- **Value-Added Production** – the additional revenue to be gained by further processing and distribution is emphasized
- **Smaller Scale Operation** – a focus on a segmented consumer market and niche markets allows and encourages small scale, more nimble and flexible producers
- **Insource (own) Resources** – more land and other resources are owned because the scale of operation is not beyond the financial resource base of the smaller producer
- **Negotiated Markets** – responding to consumer needs and producing products with specific attributes requires more direct communication throughout the chain
- **Relationship Risk** - contracts can be terminated and alliances severed unexpectedly
- **Interdependent Decision-Making** – the negotiated linkages with suppliers and processors reduces independence and forces joint, interdependent decision-making

# Dimensions of Positioning

- Product Innovation
- Customer Intimacy
- Operational Excellence
- Supply Chain Linkages



# **Integrated Risk Management: A New Paradigm for Production Agriculture**

# Types of Risk/Uncertainty (Traditional Focus)





# Sources of Business Risk



# Sources of Financial Risk

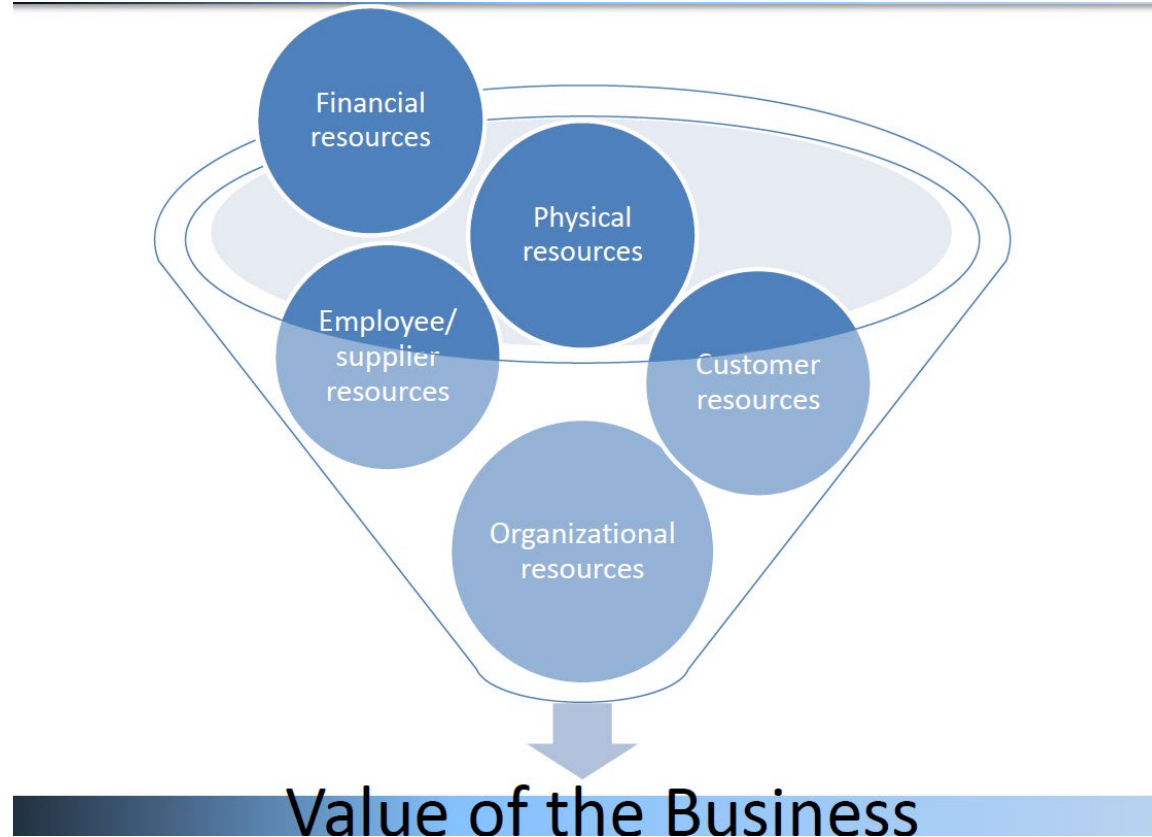


# Sources of Strategic Risk



# Creating Value

---



# Resources of a Business



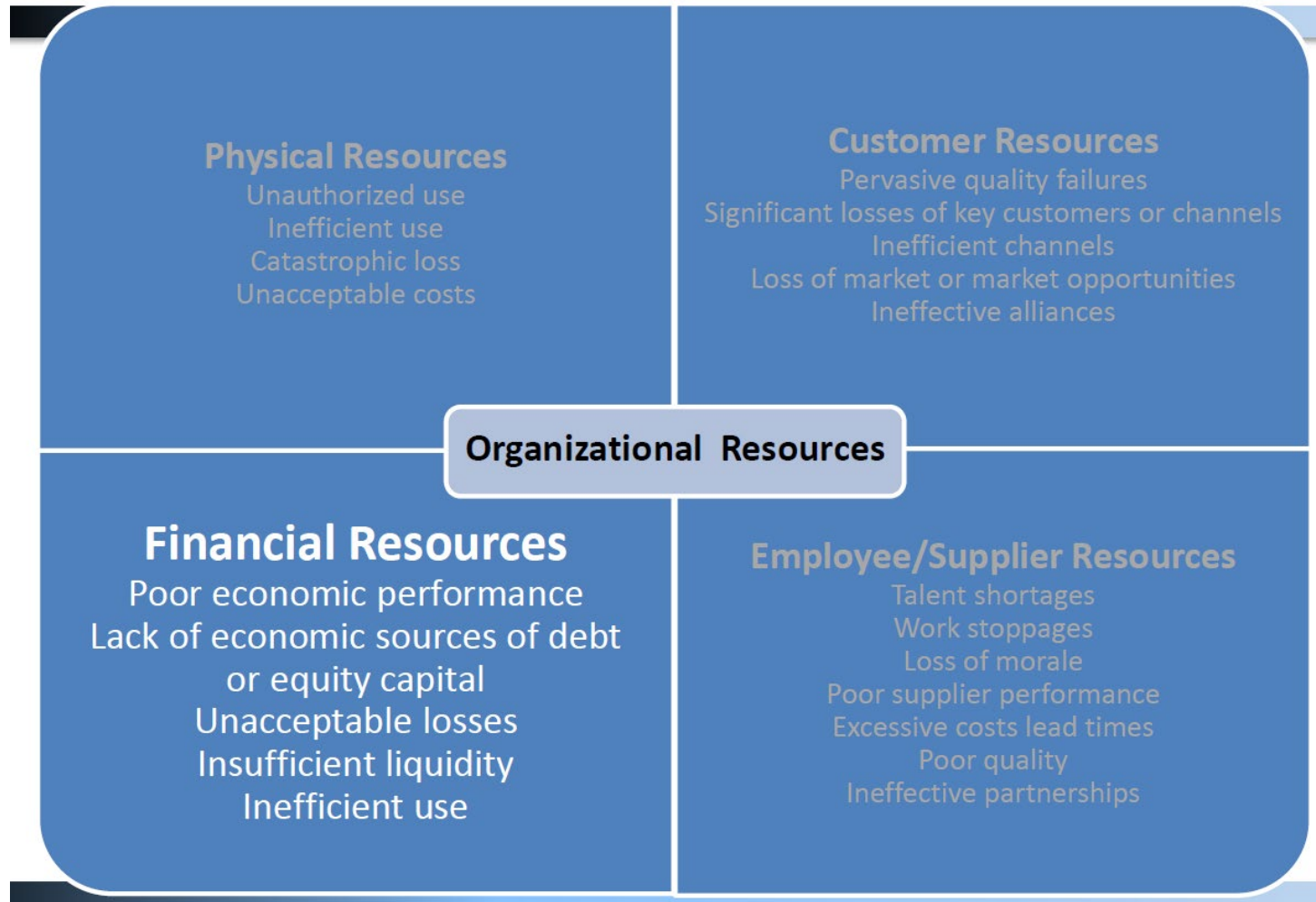
Source: Protiviti Inc.

# Risk/Exposure Vulnerabilities



Source: Protiviti Inc.

# Risk/Exposure Vulnerabilities



Source: Protiviti Inc.

# Risk/Exposure Vulnerabilities



Source: Protiviti Inc.

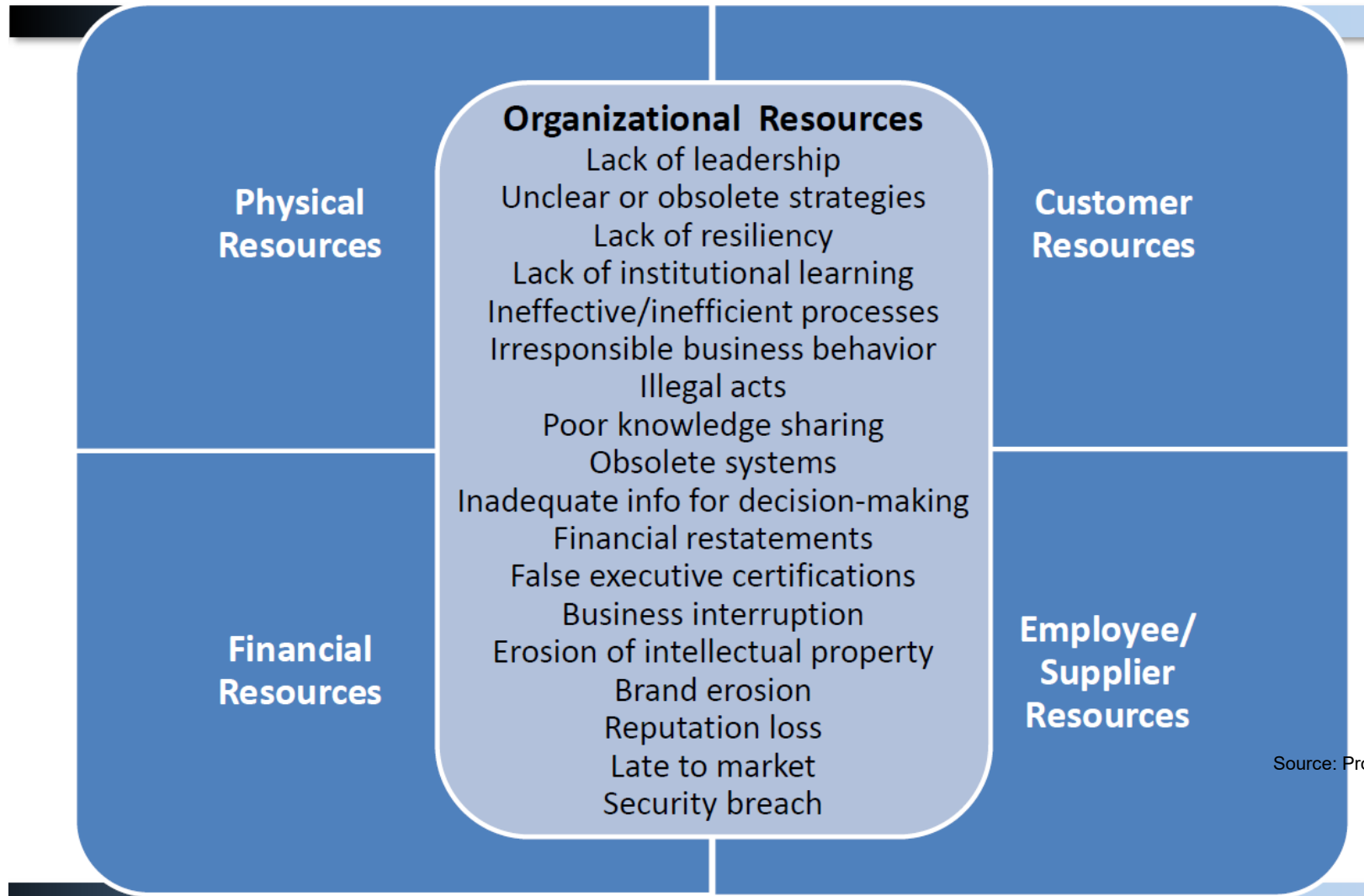


# Risk/Exposure Vulnerabilities



Source: Protiviti Inc.

# Risk/Exposure Vulnerabilities



Source: Protiviti Inc.

# A Risk Management Assessment Tool

**Weak      Strong**

(Check the appropriate box)

		1	2	3	4	5
<b>Production</b>						
1	Uses best production/operations management practices and current technology in crop and livestock production.					
2	Has appropriate technology and machinery/equipment/facility capacity for efficient operations.					
3	Identifies, monitors, and benchmarks key production efficiency measures.					
4	Maintains positive image and relationships with neighbors and community					
<b>Margin</b>						
1	Use appropriate marketing strategies (contracts, futures, options) to reduce risk.					
2	Develops appropriate procurement/input purchasing procedures to reduce cost/risk.					
3	Documents procurement and product pricing performance.					
<b>Human Resources</b>						
1	Has a seasoned, skilled, and reliable workforce.					
2	Committed to employee training/development, through internal and/or external training and development.					
3	Uses outside consultants (crop scouts, marketing advisor services, legal, accounting services, and veterinarians, etc.) when appropriate.					

Source: Centrec Consulting

# A Risk Management Assessment Tool

Source: Centrec Consulting

**Weak Strong**  
Check the appropriate box

		1	2	3	4	5
<b>Supply Chain</b>						
1	Has longer-term and sustained relationships with suppliers and buyers.					
2	Manages concentration and counterparty risk with contract partners (landlords, integrator partners, suppliers, and customers)					
3	Has appropriate insurance (casualty/crop, liability, accident, etc.) in place with lender as beneficiary.					
<b>Regulatory</b>						
1	Is in documented compliance with regulatory requirements (licenses, environmental permits, etc.)					
2	Has identified environmental risks and developed contingency procedures for potential infringement.					
<b>Finance/Accounting/Planning</b>						
1	Has developed a business plan which identifies the long range vision and plans for the business.					
2	Has an effective financial accounting system which provides timely information for management and lenders.					
3	Has reasonable internal controls in place for the organization's size.					
4	Prepares a budget for the company on an annual basis and monitors it with the management team.					
5	Has a long term capital replacement and improvement plan and understands the basic costs of capital concepts.					
6	Has effectively managed interest rate risk through locking in longer term rates on a majority of term debt.					
7	Has procedures and personnel that insure compliance with federal and state income and payroll tax regulations.					

# Managing Your Farm Business in Turbulent Times: Ten Key Takeaways From TEPAP

# TEPAP -- 10 Key Takeaways

1. Create value for your customer
2. Focus on a strategy
3. Increase asset utilization (asset turnover)
4. Increase margins
5. Grow volume/sales
6. Manage money/capital
7. Use time efficiently
8. Manage operating risk
9. Get smart
10. Think like a CEO

# 1. Create Value for Your Customer

- Understand your customer and his/her benefits
- Differentiate on service (quality, storage, JIT delivery)
- Value-enhanced products(?)

## 2. Focus on a Strategy

- Operational excellence
- Customer intimacy
- Product/process innovation



### 3. Increase Asset Utilization (asset turnover)

- Lease rather than buy
- Joint venture/share machinery
- Outsource/custom farm
- 24 hour/day operations (use autosteer)

## 4. Increase Margins

- Cost control
- Buy right
- Best management practices/technology
- Timeliness
- Market rather than price

# 5. Grow Volume/Sales

- Increase productivity
- More volume with less investment
- Joint venture for size/volume to get market access

## 6. Manage Money/Capital

- Leasing vs buying
- Use debt (cheaper than equity)

# 7. Use Time Efficiently

- Focus on management
- Hire skilled employees
- Use scheduling/work-flow planners
- Develop SOPs (standard operating procedures)

## 8. Manage Operating Risk

- Higher cash costs and land rents
- Increased margin compression and margin risk
- Price products and inputs at same time
- Contract and forward price
- Less operating risk → more debt → higher ROE

## 9. Get Smart

- Use consultants
- Network with successful farm and non-farm business managers
- Develop management skills

## 10. Think like a CEO

- People
- Money
- Relationships
- Strategy