

Schedule

- 1:30-2:45 : What is strategy to modern farming
- 3:00-4:15: Modern farming to integrated risk management
- 4:30-5:30: Integrated risk management and close

1

Strategic Positioning for Successful Farmers

Michael Boehlje and Brent Gloy
Center for Commercial Agriculture
Purdue University &
Ag Economic Insights, LLC

2

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)



M

3

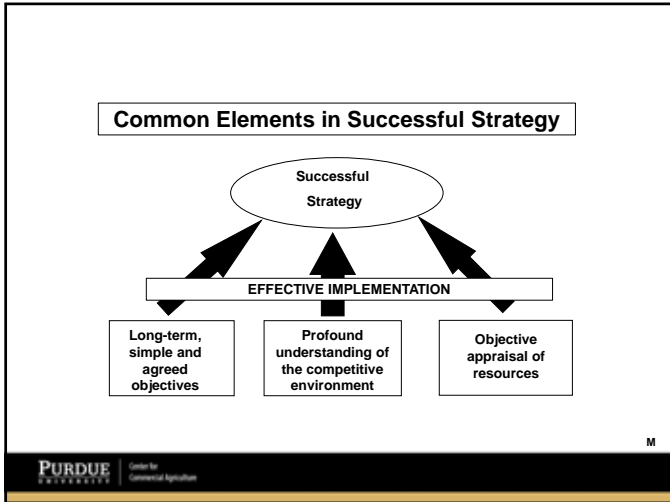
What is strategy?

- 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

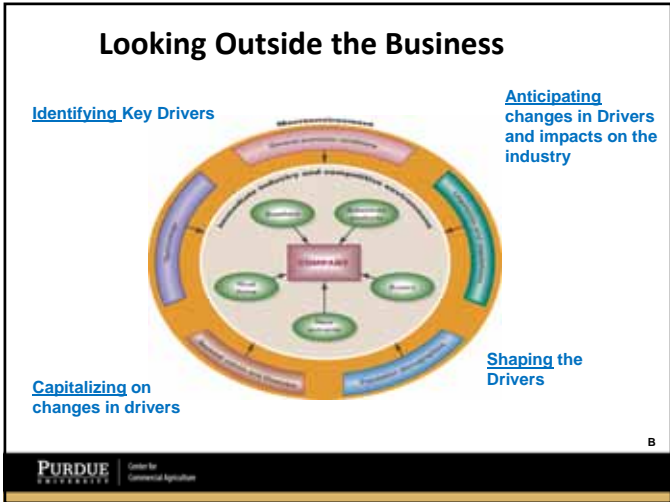


B

4



5



6

Looking Outside the Business Exercise

Instructions: We discussed the diagram on the previous page in class. We want to begin by focusing on the 5 external drivers. Now you have a chance to think about one of these drivers of change in depth. For the next 20 minutes you are to work in a group of four to discuss one of the five drivers of change (Assigned in class). In your group discuss the key trends in this area and think about how they will impact your business over the next 3 to 5 years. Make sure to appoint a spokesman as we will spend a good deal of time debriefing your ideas in class.

M

7



8

Data and Information are Key: What Does Good Data Look Like?

1. Timely
2. Accurate
3. Objective
4. Understandable
5. Convenient
6. Context Specific
7. Decision Focused



B

9

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



M

10

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)

11

Whole Farm Benefits of Full Package Adoption of Precision Farming Practices



M

12

Critical Additional Benefits

For the Value Chain

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

For the Environment

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

13

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



14

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

COMMODITY



15

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

16

Dimensions of Positioning

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

Best Product

Best Total Cost

Best Customer Relationships

Threshold Level "table stakes"

Market Leader

B

PURDUE UNIVERSITY Center for Commercial Agriculture

17

Integrated Risk Management: A New Paradigm for Production Agriculture

M

PURDUE UNIVERSITY Center for Commercial Agriculture

18

Types of Risk/Uncertainty (Traditional Focus)

Business Risk

Financial Risk

Strategic Risk

M

PURDUE UNIVERSITY Center for Commercial Agriculture

19

Sources of Business Risk

Business Risk

Production

Prices/Market

Casualty

Legal/Regulatory

Technology

Human

Reputational

B

PURDUE UNIVERSITY Center for Commercial Agriculture

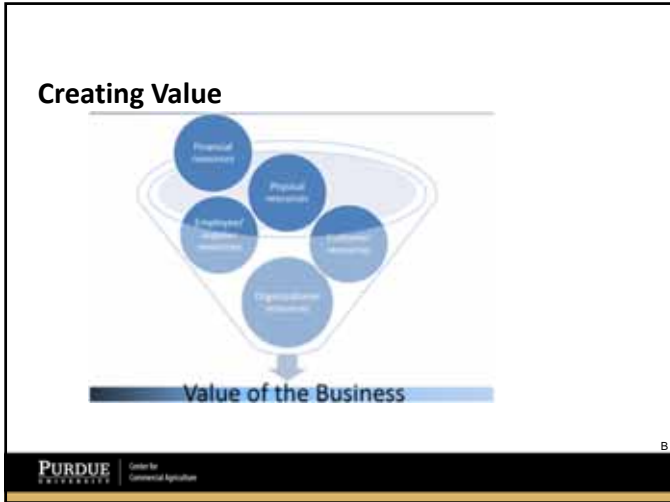
20



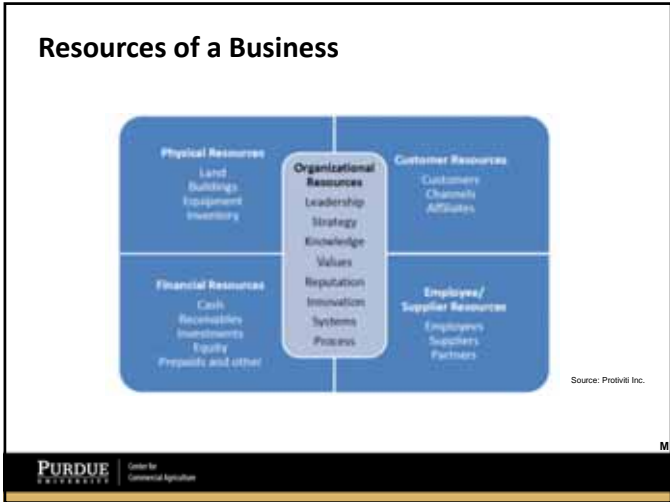
21



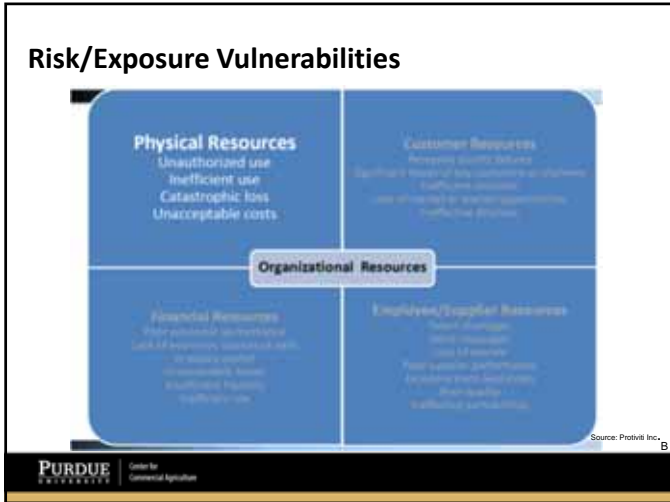
22



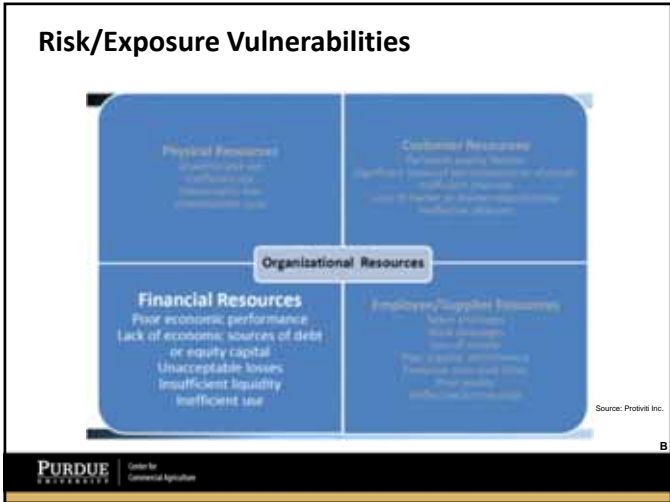
23



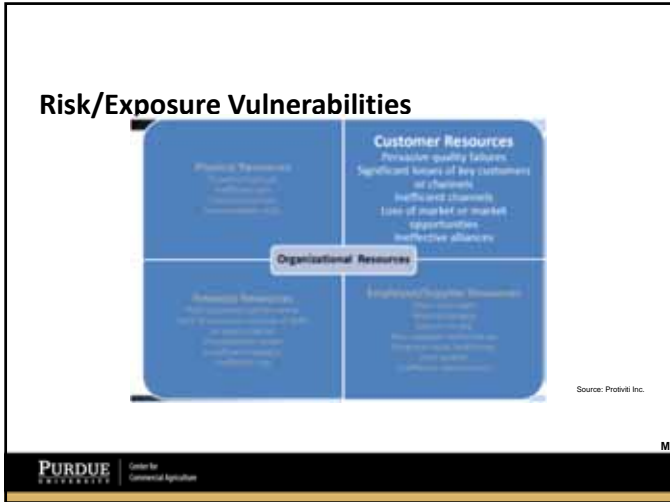
24



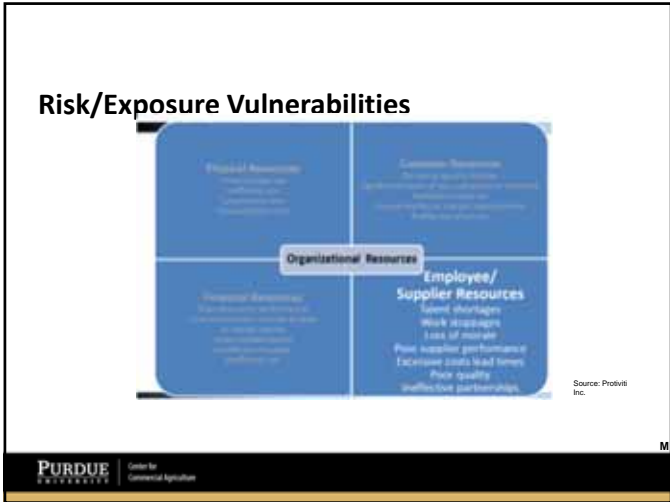
25



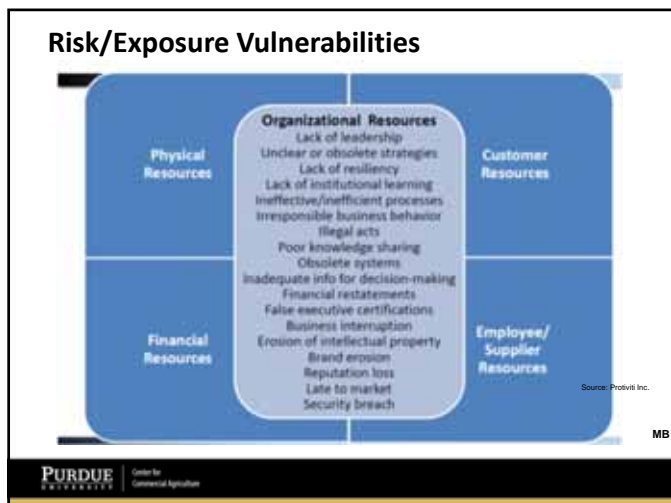
26



27



28



29

A Risk Management Assessment Tool

Weak Strong
Check the appropriate box

| | 1 | 2 | 3 | 4 | 5 |
|------------------------|---|---|---|---|---|
| Production | | | | | |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| Margin | | | | | |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| Human Resources | | | | | |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |

Source: Centrec Consulting

30

A Risk Management Assessment Tool

Source: Centrec Consulting

Weak Strong
Check the appropriate box

| | 1 | 2 | 3 | 4 | 5 |
|------------------------------------|---|---|---|---|---|
| Supply Chain | | | | | |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| Regulatory | | | | | |
| 1 | | | | | |
| 2 | | | | | |
| Finance/Accounting/Planning | | | | | |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |

PURDUE UNIVERSITY | Center for Commercial Agriculture

31

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

PURDUE UNIVERSITY | Center for Commercial Agriculture

32

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

33

1. Create Value for Your Customer

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

34

2. Focus on a Strategy

- Operational excellence
- Customer intimacy
- Product/process innovation

35

3. Increase Asset Utilization (asset turnover)

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

36

4. Increase Margins

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

37

5. Grow Volume/Sales

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

38

6. Manage Money/Capital

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

39

7. Use Time Efficiently

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

40

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

41

9. Get Smart

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

42

10. Think like a CEO

- People
- Money
- Relationships
- Strategy

43