



*Best Management Practices of Leading Farmers
"Learning from Leaders"*

The Knowledge Guide

Darrell M. Toma, MSc, PAg, CMC



"The next Decade will see dramatic changes in many industries including agri-food. We need to identify and deliver leading proven concepts to help others learn and change."

Acknowledgements

This Guide is designed to provide leading insights to the agri-business industry to enhance competitiveness and growth opportunities in the next decade of change. It has been developed from actual experiences of leading farmers in Canada and practicing professional consultants' expertise in the agri-food sector.

In addition, the continued interest and participation of farmers, researchers and the industry in the subject, makes this guide a highly desired strategic resource tool. The basis of the Guide is resource information from the Best Practice Group.

The author of the Guide is Darrell M. Toma, MSc, PAg, CMC, CAC, Toma and Bouma Management Consultants, Edmonton. Mr. Toma has over 25 years of professional consulting experience in agri-food, manufacturing, services and international business. He has conducted research projects on best practices for several industry sectors including manufacturing, food processing and primary production.

Mr. Terry Betker, PAg, CAC, of Meyers Norris Penny, Winnipeg, kindly provided review comments and thoughtful advice. Mr. Betker has over 25 years of experience in farm management and was a director on the Canadian Farm Business Management Council and several other agri-industry organizations.

Other comments were received from Mr. Rod Scarlett, Executive Director, Wild Rose Agriculture Producers and Dr. Danny Klinefelter, Texas A&M University.

This Guide is designed to provide leading insights to the agri-business sector to enhance competitiveness and growth opportunities in the next decade of change.

For more information:

www.leadingfarmers.com

www.mnp.ca

www.tomaandbouma.com

Contact: D. Toma; Email: dtoma@look.ca; 780-413-9262

“Best management practices are derived from research, based on industry experience, and proven in practice. They will enhance long term farm business competitiveness and drive sustainable growth in a global economy.”

Table of Contents

Section	Page
1.0 What Is the Concept of Best Practice?	1
2.0 What are the Driving Trends?	3
3.0 What Are Best Management Practices?	11
4.0 What About Agriculture and Best Practices?	13
5.0 How Do Western Canadian Farmers Measure Up?	33
6.0 Self-Assessment – How do I Measure Up?	41
References	48

best

“Farm executives need to look for learning opportunities that get them away from their home turf, go where the best go, get outside their commodity group and even outside agriculture for that matter.”
Dr. Danny Klinefelter, Texas A&M

practices

Copyright

Copyright © D.M.Toma International Management Inc. (TIM Inc) 2005,
Edmonton, Alberta, Canada

Foreward

In The Knowledge Guide, Darrell Toma has done an excellent job of communicating the driving forces behind the need for farmers and ranchers to become learning organizations if they want not just to survive but to excel. The basic premise behind becoming a learning organization is understanding and accepting that someone, somewhere has better idea or way of doing things and everyone in the business needs to be compelled to find it, learn it, adapt it and then continually improve upon it. Those better ideas or more innovative ways of doing things are what are known as Best Practices. It has been my observation that people who are exceptionally good in business aren't successful just because of what they know, but because of their insatiable need to know more.

In studying the best managers in Australia, South America, the United States and Canada, it is clear that the best and most innovative farm and ranch managers frequently have more in common with the top managers in the other countries than they do with most of their neighbors.

When it comes to demonstrating a best management practice, one of my favorite quotes is from hockey great Wayne Gretsky, when he was asked what he thought accounted for his success. His answer was that he knew he wasn't bigger, stronger or faster than most of the people he played against. What made the difference for him was that most players went where the puck was, while he always tried to go where it was going to be.

To stay ahead in this rapidly changing world, managers need to realize that unless the internal rate of change and improvement in their business exceeds the rate of change of their major competitors, it is falling behind even though it may be moving forward. Two things I frequently hear is that most farmers and ranchers aren't managing their farm or ranch like a business and that they are resistant to change. Almost no one I talk to believes those statements apply to them. The question should really be are they managing as well and changing as fast as their leading edge competitors, i.e., the top 10 percent of performers.

As an analogy, consider two people who are driving the same direction on a highway. Both are clearly changing - i.e., moving forward. However, one is traveling 55 mph and the other 70 mph. If they both drive 8 hours a day, 5 days a week, at the end of one year the one going 70 mph will be 31,200 miles ahead of the other. But if the 70 mph driver decided to drive 24 hours a day, 7 days a week, he would have an advantage of 498,800 miles at the end of one year. If the highway circumnavigated the earth, the slower driver would be getting lapped about 20 times a year. Is this example extreme – yes?. Is it unrealistic – no!

Large commercial dairies typically milk around the clock, 365 days a year. But also remember, one of the messages of the book *Good to Great* was that the managers of the most successful companies spend as much time analyzing what they need to stop doing as they do evaluating new opportunities. Sometimes best practices simply involve changing the way you do things and eliminating the unnecessary or low payoff activities. It's not always about new bells and whistles.

Countless management studies have demonstrated the tremendous economic performance gap between the top quarter and the bottom quarter of performers in the same type of business, regardless of the commodity, geographic region or time period, even when the difference in debt/ownership structure is adjusted for.

If you want to succeed, associate with and learn from the winners. Recognize the absolute necessity of continuous change and improvement, and never let yourself get bogged down in feeling like a victim - it's a waste of time and energy.

Reading and studying *The Knowledge Guide* is a great place to start.

Dr. Danny Klinefelter June, 2005
Texas A&M

best practices

1.0 What Is the Concept of Best Practice?

1.0 What Is the Concept of Best Practice?

Best Management Practices — sounds interesting and intriguing; in fact it is the way of the future for enhanced business performance.

“In business, the only truly sustainable competitive advantage is the ability to learn and adapt faster than your competition.”

Jack Welch, former CEO General Electric

Best Management Practices (BP) is seeking out the “best of the best” business concepts and adapting them into your business. Many industries have researched, analyzed and identified the keys that can be used for sustainable growth and survival in the global economy. Businesses today, in any sector in any country, have to consider these ideas within their own resource mix and business strategy.

The transition of the agri-food sector globally is facing a severe trial to a new “future state”. That future state will have fewer, more nimble and market sensitive demand chains. These will identify, research and develop novel products, which have high utility and customer functionality. Demand chains will involve new protocols for production, processing and serving the end customer, safely and in a timely way. The future state will simply not be the same as it is today.

With a focus on the future state, some key operating realities are very clear. The integration of global capital markets, great speed of information gathering and reporting, higher interest by consumers in the link between food, nutrition, health/disease management, and prevention and risks, and the reality of trade and market barriers, make it imperative that best practices be assessed and employed for long term survival.

These best management practices can serve as the “compass” for individually defined progress, but it is up to leaders and managers to guide individuals and firms towards the future management state. This is a never-ending challenge in a globally competitive environment with many unknowns and uncertainties. The role of “best management practices” is to help address and respond to these unknowns. It also provides new ways for farmers to rise above competitors in the search for enduring customer driven growth, profitability and new product innovations.

We trust this Guide will be a valuable resource as you start towards your farm business “renewal process”.



2.0 What Are The Driving Trends?

2.0 What Are The Driving Trends?

“Change is not one big thing. Change occurs as the result of many, many small things and many, many big things”.

Stephen Kaufman, in Change Makers.

Economic and Management Trends

Macro trends causing major economic change include:

- Global competition / globalization / trade and protectionism implications
- Industry consolidation – regionally, nationally, globally
- Industrialization of agriculture
- Food safety / security
- Consumer or demographic influence
- Technology / e-business application

Competitiveness research offered by Dr. Michael Porter, Harvard Business School provides a warning to Canada. Porter’s model of competitiveness suggests that the standard living of a nation depends on the productivity of its human capital and natural resources.

Porter completed a study for the Canadian government entitled, *Canada at the Crossroads – The Reality of a New Competitive Environment, 1991*. His research identified agriculture, particularly beef and grain, among Canada’s most competitive sectors. In 2001, an updated report entitled, *Canadian Competitiveness: A Decade After the Crossroads* had a more somber tone. Even with the adoption of recommendations from the previous study, Canada was not seen to be progressing in the right direction. Dr. Roger Martin of the University of Toronto and Porter completed the updated study.

Canada’s Ranking – Globally

Porter measured and ranked the competitiveness of 58 countries. He found Canada’s overall competitiveness ranking dropped from 6th in 1998 to 11th in 2000. This drop in competitiveness can be attributed to the quality of Canada’s microeconomic business environment, a ranking that fell from 3rd to 8th. In other categories, Canada ranked 20th in innovation, product design and branding; 19th in value chain presence; 17th in international distribution; 16th in company operations and strategy; and 23rd on the nature of competitive advantage. “Overall Canada, ranks squarely in the second tier of countries on the innovation index.”

Canadian farmers and agri-business can be distinguished by better management of resources and enhanced decision skills. One of our competitive advantages has to be the application of best management practices—a theme of this Guide. The other most significant competitive advantage farmers have, is the application of leading and appropriate technology.

Why are management improvements needed?

Consider:

- Enron and WorldCom events, which had major losses to shareholders because of poorly performing governance and management models. These developments severely challenged our confidence in corporate governance models.
 - Eaton's, Canada Packers and many other companies have gone out of business. These examples of corporate decline are due to market changes and competitive forces and a lack of business adaptation. These companies did not survive the driving forces of economic and social change in spite of being well financed, national and decades old. Traditional ideas do not necessarily survive anymore.
 - The rise of China as a major force in manufacturing is causing the USA and other countries to re-examine their internal manufacturing industries and policies. As China has embraced a model of rapid industrialization, it is challenging many businesses in all countries. While a present shortcoming may be in final quality of goods from China, this trend is driving many to develop a 'China' production strategy.
 - The impending rise of Brazil, Argentina and others such as the Ukraine in commodity food production.
 - The continued decline in agricultural production prices and farm incomes, which are impacting farmers negatively in spite of rising consumer incomes. Globally, farmer incomes have been slipping for many years due to a variety of factors, including subsidies and trade barriers. However paradoxically, incomes of consumers in many countries have been rising.
 - Global trends of rising demands for intermediate and final consumer goods versus flat demand for commodities. World trade is seeing more shipments of value added products compared with commodities. This trend supports the desires of consumers to spend on high quality products and services.
 - Continued multi-lateral negotiations and discussions towards broader World Trade Organization (WTO) trade agreements to enhance market access, reduce domestic and export subsidies. Thus while many people do not see the competitive issue daily, the effect of more open global trade is to force businesses and manufacturers to compete on some basis, be it in a niche or a commodity play.
 - A continued focus on "Competing against perfection" as in the Toyota "lean" manufacturing model. Currently the model is proving correct as globally competitive products with few error rates and high quality control are winning the car and truck markets at the expense of others.
 - A great and rising reliance on technology and the bundling of technologies for better products, services and lifestyles. These technologies can span a range from electronics to software to mechanical to the emerging areas of "nano technology".
 - The new E-commerce marketplace allowing consumers and producers of goods and services to interact over the Internet for mutual benefit.
 - Consumers' distrust of the food system, in regards to food safety and disease linkages to food products (eg. Avian flu, BSE, GMO crops).
 - Demographic change in many societies due to aging populations, high elder dependency and lower birth rates.
-

- New threats to societies from bio-terrorism and the rise of security and other protocols to ensure that people are safe and secure.
- Globally, rising disposable income levels, new consumer groups and the relationship to food consumption trends. This means changing consumer food purchasing patterns.

Globally farmers are also being challenged by many forces of change, which are causing the agriculture community to respond with new business models and ways of operating. Simply put, the forces will not stop and in fact they may become more intense. It is imperative that new and better management practices are discovered so the sector can see growth opportunities.

Farmers can expect the World Trade Organization to create more market access into Canada and other countries from 2006 and beyond. In addition, the USA Farm Bill and other Counter Vail Duty (CVD) actions may mean that market access is changing. This will create a need to re-think many management practices to maintain competitive in the world.

Technology Trends

Technology is increasingly becoming an important source of competitive advantage for businesses and the agriculture sector. Integration into our daily lives is real, and technology is a substitute for both labor and management capacities.

New Technology Trends for the Future

Key technology trends include:

- Technology is now a common “tool”
- Multiple technologies are used—from chemical to mechanical to machine
- New energy sources—co-gen from biomass/ renewables
- Life sciences, genomics and bio-controls
- Field and farm level—GIS, electronics, robotics, telecom for information
- Technology bundling and sourcing
- Sustainable production systems and environmental practices

The application of technology has helped Canadian farmers produce world-class products with increasing efficiency. Some of the changes resulting from the application of technology have been subtle; others more profound.

Past Technology and Agronomic Trends

- **Giant sized equipment "scale-up"**— many basic mechanical/hydraulic machines go un-noticed today. However, it has probably had the largest single impact (albeit gradual) on agriculture in the last half of the 20th century to help in the “capital for labor” substitution. This is clearly reflected in average operational farm sizes; about 320 acres in the 1950’s; 640 acres in the 1970s; and 1280 acres in the 1990s. The substitution of capital for labor has been very dramatic and it is a response to the need to seed and harvest valuable crops quickly.

- **Large inventory/ Bulk materials management** — have similarly changed along with the scale increases. Increasing size required quicker and easier materials handling, thus industry now has bulk fertilizer, high-capacity bulk delivery trucks, high throughput grain elevators, barrels of chemical, pellets, hopper cars, etc.
 - **The communication/information "revolution"** — has profoundly impacted agriculture just as it has the rest of society. Only 20 years ago, fax and computer technology was in its infancy. Today, a majority of all farms own a computer (at least for e-mail) and use the computer for farm business management activities. Now, hundreds of information sites are at the farmer's discretion (space and time) is a very important capacity-building farm management tool. "Knowledge is power"
 - **Genetically modified organisms development and application** — has had a limited but high profile evolution. In crop production, this has largely been limited to the development of both a GMO and non-GMO based herbicide-tolerant canola system, which, together are now estimated to account for perhaps 70% of all canola grown in the prairies. However, the acceptance by consumers to GMO foods and traceability is a continuing challenge.
 - **Broad-spectrum pest control** — further enhances quick-and-easy pest management, as well as improving farm safety. This approach employs one pass, no mixing, and less operator exposure. It is possible that over 70% of the cropland now uses a one-pass spray application. IPM (Integrated Pest Management), while still in its infancy, also makes eventual development of more natural, non-chemical pest management techniques increasingly probable.
 - **Electronic monitoring and control** — of production activities have become widespread. Seeding, spraying, and harvesting equipment now monitors virtually every aspect of machine operation and performance. As well, fingertip adjustments (both electronic and hydraulic) can now re-set application rates, threshing speeds, and so on. Similar technologies are now equally commonplace in the mixing and application of feed rations for poultry and livestock. Satellite-based Global Positioning Systems (GPS) and "precision farming" also gained headlines but have so far seen limited practical application.
 - **Variety and breeding improvements** — continue with generally less promotion or public awareness. Varied yield improvements have been particularly pronounced in canola production. These productivity improvements have helped the sector compete, but contribute to over supply issues, not necessarily resulting in increased profitability. Thus, we have increasingly larger farms that require more advanced management applications in order to sustain profitability.
 - **Zero till/minimum till Practices** — is the most far-reaching change in crop production practices during the 1990s. From nearly zero usage in 1990, now about 65% of all farmers have now adopted this technology, while at the same time the summer fallow acreage has continued to decline.
-

- **Sustainable resource management practices** — became a more conscious management consideration during the 1990s. This approach, aside from zero till, includes the development of more by-product recycling as reflected by less fall stubble burning, more manure management/use, and heavy harrow straw management. The multi-functionality of the agricultural resource base with other important uses, highlights this holistic perspective.
- **Product differentiation** — (inputs and end products) have also become a reality during the 1990s. This was prompted by two developments: the evolution of consumer niches and; the introduction of proprietary agri-industrial capabilities, supported by proprietary variety legislation of which traceability and identity preservation are key aspects. Product differentiation is a strategy farmers and agencies are still trying to understand and apply to a commodity-based system.
- **Standardized production and management processes** — is another hallmark of the 1990s. Large standardized units, easily replicated, now dominate the commercial production of broilers, eggs, turkey, pork, and milk products. This development has helped reduce risks, share management practices among a "peer group" and create a new production business model.
- **Animal feeding technology** — changes occurred during the 1990s which focused on animal feeding technologies, particularly rations, widespread pre-mixing of feeds and supplements (including micro-nutrients, hormones, stimulants, etc), improved feed preparation techniques and improved processing in pelleting and rolling. Further the link of food safety to feeding is becoming paramount and will be enforced through national agreements which define industry protocols.

Future Technology Drivers - What Are They?

Given the current progress in agriculture, what are the likely technology drivers in the future? A general observation of the industry reveals three over-arching drivers:

- Systems, standardization and vertical integration/coordination of agriculture commodity production systems. The "craft/artisan factor" in primary production may become more difficult to maintain
- Integrated resource management (both rural-urban and cross-sectors like forestry or tourism) which is both socially and environmentally sustainable
- A seamless value-added and consumer-driven production and marketing system

Agriculture will see the emergence of many different approaches—large-scale, sophisticated (i.e. information-based), and proprietary networks or production alliances developed to meet consumer needs. Production economies of scale will drive technology development and adaptation.

Large-scale primary production and food systems will reflect a "seamless" interface between knowledge, managerial capability and market access—attributable to the exploitation of new technologies. Small-scale production of niche products will continue to emerge, responding to specific market opportunities, which are being created globally. Both production systems will offer new market opportunities which in turn, will result in new competition.

Emerging new drivers include:

- **Energy substitution** — Rural areas presently require large amounts of fuel consumed by the provincial economy, plus extensive use of other hydro-carbon derivatives, particularly nitrogen fertilizer, chemicals, and plastics. In the international marketplace, the use of alternative energy sources and increased energy efficiencies will likely become imperative. Consequently, the potential for bio-energy is immense. This is already occurring to a degree.
 - **New uses for bio-products, functional foods, pharma-crops** — These include enhanced fiber development of agricultural materials; new bio-based polymers which can substitute for plastics; and new bio-based enzymes which can be used for oil spills, etc. This has tremendous potential as annual world biomass production is perhaps five times as large as existing hydrocarbon energy consumption. Bio-products are the new industry of the future and some examples can be found on the prairies. In addition many new products in functional foods and nutraceuticals will create opportunity for the sector. New pharma-crops for health applications are also emerging.
 - **Genomics** — This technology involves the customization of genes in plants to produce specific traits. GMO and herbicide-tolerant canola is just the beginning. For example, Sembiosys (Calgary) is developing an insulin product with advanced medical application, from a plant. Beyond tolerance to herbicides and predators, genetic modification could eventually lead to an increased tolerance to drought, high salt, high aluminum, cold and hot temperatures, and other stress factors.
 - **Electronics/robotics/GPS** — A quantum leap forward for electronic-based automation, robotics, and GPS-based monitoring and control systems could also encourage major structural change in years ahead. GPS-based controls for field operations with compatible and accurate information software for all field passes could become commonplace. This will allow for more capital substitution for scarce labor and management. Other “bundled” technologies will find their way into the market as entrepreneurs recognize new ways to solve old problems.
 - **Bio-Controls and organic production systems** — Driven by health and environmental concerns, plus agriculture’s present addiction to hydrocarbon-based fuels, chemicals, and fertilizer, more bio-control of pests and more organic practices can also be expected. Integrated Pest Management (IPM) and Sustainable Farming Systems that do not depend so heavily on pesticides and chemical fertilizers, have been heavily promoted in developing countries.
 - **Sustainable multiple-use of land and water resources** — Finally, there are a number of environmental and related resource use issues, which will inevitably have an undetermined impact on the future structure of agriculture. Resource use is becoming increasingly regulated (e.g. water withdrawals) and multi-functional. Technological, economic, and social/institutional approaches must be developed to accommodate and facilitate these uses.
-

- **Crop health therapy** — Using hormones and management practices to manage plant health in crop season. Some of these practices are emerging now to help manage under changing cropping and weather systems. Allied technologies will be on-farm field level weather system predictive models to help manage in-season operations.
- **Better utilization of farm level resources** — For enhanced crop production—these can include improved use of manure, soil testing and nutrient management practices. Seed selection and viability testing will also be improved for higher plant density and productivity gains. New application of manure for bio-gas and composting will continue.
- **Wireless crop data and information management systems** — These will include field level mapping, GIS and satellite-based information which is beamed direct into cabs for immediate decisions. Wireless devices will be integrated into man-machine information tools which allow field operations at distance from the home base. Data mining and linking into e-commerce solutions for improved marketing will further drive management decisions.

Businesses will need to develop new ideas and approaches, within this context of more change, competition and a major demographic shift in the next decade.

The goal of this Knowledge Guide is to help agri-business leaders and managers to better understand these challenges and offer new ways to manage them.

best practices

“Common best practices exist globally and the leaders are surfing, investing in people and learning, learning, learning. The best are kindred spirits working together.”

Rob Napier, Napier Agrifutures, AU

3.0 The Deeper Meaning – What Are the Best Management Practices?

3.0 The Deeper Meaning—What Are the Best Management Practices?

The concept of best practices can be applied to every sector of the Canadian economy and it is equally important for the agri-food sector and farm production.

“Best management practices are derived from research, are industry-based, and proven in practice. They will enhance long term farm business competitiveness and sustained growth within a global economy.”

Leaders Using Best Management Practices

A best practice leader in any industry is increasingly characterized by:

- Being technologically innovative with an interest in new learnings
- Being market and customer oriented
- Continuing to reassess internal skills and adopting new skills
- Adapting new technology and new business processes
- Benchmarking key indicators and applying benchmark standards across a recognized peer group
- Employing “Lean enterprise” systems approach to the management of their businesses
- Addressing sustainable development practices

From research, few Canadian studies exist on best management practices in the agri-food sector. One of the most active sectors in adopting best practices is the global manufacturing sector, which offers many novel ideas. A review of the business literature reveals that the sector is embarking on lean manufacturing, adopting a customer focus, pursuing e-business opportunities and providing QA (quality assurance) systems.

Although it appears there are no direct studies on agricultural best management practices, the conclusions drawn from the business literature can be practically applied to the agricultural sector.

Leading farm business owners and managers readily embrace the concept of applying benchmarks against their own performance. The follow-on then, after a benchmark standard is applied and relative performance is revealed, is to understand what management practices managers are using that are yielding better performance. In other words, “what are those managers with better results doing that I should be doing?” The answer(s) lie in the best practices.

Within agriculture and specifically the agri-food sector, a best practice leader reflects:

- Strategic thinking — seeking to proactively forecast and use better ways to maintain competitiveness and sustain profitability
- Technological and product innovation — developing niche and value-added opportunities and methods for identity preservation, functional foods and nutraceuticals
- Market driven — addressing public concerns, introducing new products like nutraceuticals and functional foods, adopting new strategies for marketing distinct products—not commodities, competing in increasingly global competitive environments

- Risk management — understanding risk and uncertainty within the scope of weather, land/water, markets, people and legal issues
- Reassessing skills — adapting and processing the increasingly technical and scientific foundation of agri-food information
- Investing in and adapting new technology — coping with structural changes in agri-food, having an R&D plan
- Benchmarking and using benchmarks — setting food safety standards and controls, setting food quality standards, developing production technologies free of pesticides or chemicals (e.g. Integrated Pest Management)
- Use of lean enterprise and efficient management — balancing family, business and personal goals, maintaining the sustainability of the productive agricultural base (including all natural resources), minimizing the environmental effects of agriculture, reducing sources of waste, 'Lean Thinking'
- Use of sustainable development methods — addressing climate change issues, the Kyoto Protocol, developing alternative sources of energy from agricultural byproducts, developing commercial or industrial products from agricultural byproducts, providing the non-market benefits associated with natural areas

A recent business book offers some comment on how others have changed from being a good company to a great one. *"Good to Great"* explores the essential best practice elements of the business model. (See J. Collins, *Good To Great*).

This research shows that the great companies:

- Have strong leadership and enduring greatness
- Build a Team — get the right people involved
- Confront the facts — understand and confront the current reality
- Use a unique "hedgehog" concept — what are you passionate about? What are you best at? What drives your economic engine? (a hedgehog can survive under many adverse conditions)
- Build a culture of management discipline
- Use and adapt technology
- Create a breakthrough/ create momentum

The "good to great" model is suggested by many business leaders as valid. Ideas can be equally applicable to the agri-food sector.

These and other leading business ideas are explored in the next sections with more specific reference to the agri-food sector, typical benchmarks and application of the concepts.

4.0 What About Agriculture and Best Management Practices?

4.0 What About Agriculture and Best Management Practices?

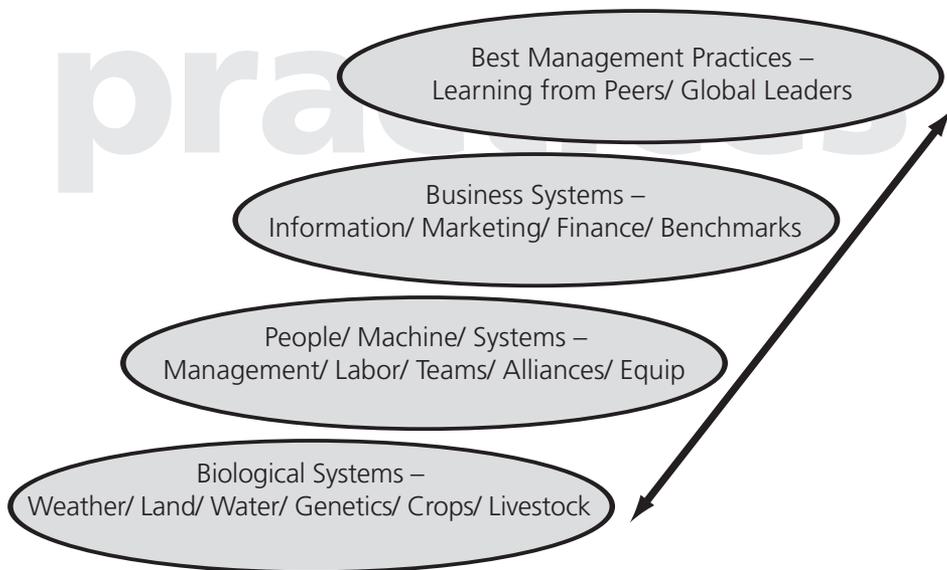
Western Canadian research with leading farmers shows nine key areas of best management practice. These practices have been identified and validated with other farmers and international experts. The concepts provide the context of Best Management Practices to help you benchmark yourself. A common saying in business is “you get what you measure”.

This Knowledge Guide will help to identify, in a tangible way, things you will need to measure to survive. The nine top “best management practices” are:

- Vision for the agri-business
- Leadership
- Risk Management
- Human Resources
- Relationships and Alliances
- Production, Innovation and Environmental Management
- Financial Management
- Marketing Management
- Confidence and Motivation.

Each of these practices are explained in the following pages. These practices are embedded in a systems approach to the management of the farm business.

Best Practices – Systems Approach



Vision is Important

People often speak of having a vision for their business to help define and explain the longer term goals or where they want to see their business in the future. Within the agriculture sector, this is equally true. The vision is “what we desire to be” as a farm business. If you are setting out, you may be thinking of developing a farm with a key focus in cereals such as wheat and barley to help build your overall base. Others may wish to have a value added or agro-tourism aspect within the farm business. All are possible.

Underpinning the farm business vision are two main points:

- The values and principles of operation — “the code of conduct”, how you will show others what you believe in through your actions
- The business purpose — what are you striving to do—how you will be competitive in the marketplace as a farmer

Research reveals that people who write down their visions, goals and actions are much more likely to achieve them. Further, as the leading farmer survey results will show below, the top quartile of the leading farmers who participated in the Study and report that they actively apply this principle to their management practices have much higher revenues and asset bases.

One of the most important skills that leading farmers seem to have is the ability to look at their operation with a total “systems approach”. This gives them a holistic vision, purpose and focus. It factors in all aspects of management and it sets the agenda for the business. A best practice leading farmer has a vision, usually an outrageous one. Visionary goals are lofty and are typically difficult to actually quantify. Vision considers family and lifestyle, workload and career objectives.



How do some Western Canadian farmers view vision?

"Our vision for the farm is to be one of the leaders in agriculture".

When asked what 'leader in agriculture' looks like, this farmer responded that the farm would be profitable, innovative, a good environmental steward and that the operation would be sustainable for future generations. He does not think others actively consult them in the community or industry regarding their practices. However, he often sees neighbours following their practices a couple of years later. Recognition as leaders in their own community does not happen. When they are innovative they are criticized and when the innovation is successful others adopt it and the recognition is not given to the innovator. Thus being a leader has some personal risks.

Your Action Points:

1. What is your farm vision?
2. What are some of your core values?
3. Does everyone (all shareholders and stakeholders) agree on the vision?

Notes:

best
practices

Leadership is Needed In Turbulent Times

Leadership is a vital reason leading farmers and businesses succeed when others fail. In agri-business and other organizations, leadership is often developed and enhanced. Within the agriculture sector this is equally true.

Some comments on leadership ideas for change suggest that:

- “quantum” ideas (big) set a direction for all, but
- incremental ideas deal with minor “mid-course corrections”

Proactive agri-policy formation reflects the changing nature of global markets and is causing many leading farmers to become more involved in the policy formation and development processes. This is requiring more “soft” skills and new types of information. While historically, most technology transfer information packages may have been agronomic and production in nature, today more attention is being paid to market access and production protocols. This trend has been ramped up especially since the 1995 GATT negotiation, bio-security issues and other consumer inspired needs relating to environmental and health and safety issues.

Leadership is the courage to see the situation as it is and to make the tough calls. Some leaders want to “command and control”. Other leaders like to give a challenge and let their people learn through small mistakes. Some develop a “Team based” style. Others will mentor “under their wing”. These approaches are used with both sons and daughters and with good employees who show interest and merit.

Leadership in agriculture includes the ability to recognize and manage adaptation to the challenges and opportunities that exist within change in the industry. Churchill stated that there are challenges in every opportunity and opportunities in every challenge.

Another key area to consider is how to develop the new leaders in your farm business. Leading farmers indicated that they actively worked to create an environment where leaders (family and non-family members) could evolve and fully participate over time.

Some farmers want their sons or daughters to become involved, after they have reached an age of 18-23. They may do this by having them attend some form of post-secondary education, and /or work in a related or non-related industry for 3-4 years. Some of the leading farmers say that succession planning is one of their biggest concerns, specifically how to transfer ownership and management of the operating business without damaging the earning potential and asset base.

How do some Western Canadian farmers view leadership?

"We had our son go to college and then we insisted he work with someone else before he came back to the farm. This helped to give him a perspective of how others do things. Now we are dealing with bringing him into the farm business. It is also a way to develop his leadership. We have a concern on succession planning and how to deal with it. We have met with him and our other sons who are interested in farming and we are still figuring that out. It is very challenging but we need to do it in the next few years."

Your Action Points:

1. What is your leadership style?
2. Do you actively work at developing your leadership? If so, how and if not, how will you initiate this development?
3. Given that you have a succession plan, does it recognize leadership? If so, how and if not, how might it?

Notes:

best
practices

Risk Management

There is risk associated with every aspect of business, whether you are farming or in some other industry. There is no possible way to eliminate all risk. Therefore, it is crucial that farmers manage the risks that are associated with their operations. Given the capital investment required to be in the business of farming, and the very nature of farming where risk is high and margins are narrow, it is increasingly important for farmers to take a more proactive approach to managing risk.

Leading farmers understand the different risks that are associated with farming, and where these risks present themselves.

Financial risk is top of mind for farmers. Risk in the market place is also a major area of focus and an area in which many farm business managers commit less than adequate time. The complete domain of risk can be examined by reviewing *The Universe of Risk* (Edward Teach, CFO Microsoft, 1997).

Generally, in managing risk in your farm business, it is far better to be proactive than reactive. Whether you are trying to be proactive, or are faced with reacting to something that has already happened, there is a process that leading farmers use.

The process involves five steps:

1. Identification
2. Assessment
3. Mitigation
4. Implementation
5. Evaluation

Another consideration is the relationship between risk and uncertainty. Risk differs from uncertainty. You can usually assign a probability to the event of a risk occurring from prior experience. However, with uncertainty, you have no basis to judge the event and hence, you will continue forwards with no parameter for judging when the event may occur. The BSE event is a good example. While we can judge the risk of occurrence is low with one inflected animal per 1 million, the timing of the USA border re-opening is highly uncertain.

“Change has already altered the way you do business. What is important is your own individual attitude about change. I want you to think about proactive change, which is usually viewed as an opportunity. Reactive change is viewed as a loss. Make sure you understand the difference because leading farmers do.”

Sandy Laudeman, MN, USA

How do some Western Canadian farmers view risk management?

"We don't have a written risk assessment plan for the farm but there are substantial contingency plans in place for most risks. We price grain through deferred contracts, use basis contracts, forward contract and target to sell one-third of the crop pre-priced before harvest. With three partners, we have key business insurance in place including business interruption insurance, disability, critical illness, health, crop and income stabilization insurance. We are reducing the risk of food quality through traceability systems required by the organic certifier. This enables us to sell into the EU."

Your Action Points:

1. What are your main risks?
2. What have you done to manage risks?
3. What is your biggest uncertainty?

Notes:

best
practices

Human Resources

The management of human resources is a very important element in every successful business. Generally in business, it is increasingly difficult to know how to work with employees. Farming is no different.

Managing human resources for farmers is new territory. Leading farmers report that good human resource management practices increase the productivity of individuals, which in turn increases the productivity of the business and results in sustained earnings and better profits.

The highest costs for businesses are often not their supplies or technology, but rather their labour. This is obviously somewhat different in agriculture but correlations exist. People invest time and money into negotiating better contracts with their suppliers because it will save them money in the long run. Wisely investing some time and money into your “human capital” for the sake of optimizing returns on investment and improving productivity is worth it too.

The human resource management area is quite broad. One of the areas of best management practices considered was the formality of employee performance assessments. Leading farmers treat employees with respect and fair compensation. They know how to separate the farm business from the farm family and make appropriate time for both. They are effective communicators, delegate responsibility to others and trust them to do what is asked of them.



How do some Western Canadian farmers view human resource management?

"We rated people management as a low priority today. This is a whole new game with the new venture as our operation has gone from a farm with 2-3 employees annually to 40+ diverse employees. The management team faced many issues they were not accustomed to or expecting such as conflict, personality issues, marital conflict and performance issues. Job descriptions, clear communication of expectations and performance reviews will be in place this spring. One member of the management team will be delegated the responsibility of personnel management."

Your Action Points:

1. What are the actual and/or potential impacts resulting from limitations to the time you are able to invest in your business?
2. Have you developed an organizational chart that includes areas of management responsibility?
3. Have you developed job descriptions for all team members? Have you developed performance goals for team members? Do you conduct performance reviews?

Notes:

best
practices

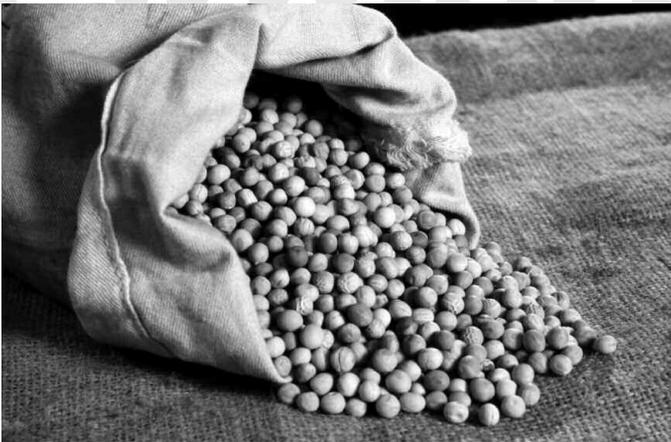
Relationships, Alliances and Value Chains

In the new way of business and agriculture, fewer and fewer are doing more and more. This means it is important for you to develop networks, relationships and alliances with others. Value chains are also included within this area.

Building strong business relationships is important as it allows one to access many new networks, sources of information and assets to help manage a highly competitive marketplace. Business relationships should move from being transactional focused (where one simply exchanges money for goods) to one that allows for an exchange of mutual benefit. Thus one should be building relationships, which exhibit trust, mutual respect, understanding of the business goals and key interests.

Alliances and value chains (or demand chains) are also important ways for farmers and mutual businesses to work together. These “business models” are well developed and leading farmers report that they are incorporating them into the management of their businesses. Risks exist in these collaborative approaches but there are positive rewards. Leading farmers report that their value add activities make a positive contribution to the bottom line.

Other business models are used by leading farmers and include partnerships, corporate models, joint-ventures and New Generation Co-ops. The actual model used and its appropriateness to the specific farm business is important, but the core business purpose that underpins the decision about which model will be used is equally as important when entering into an alliance relationship.



How do some Western Canadian farmers view relationships, alliances and value chains?

"We have been successful in moving up the value chain through a series of alliances. This marketing approach connects us to the retailer, stabilizes price fluctuations and locks in profits. We have been part of an initiative with a processor to develop a "pricing window" mechanism with a Japanese retailer and a number of producers. This is an alliance of all players in the food chain, which set process and margins at each level and shares the market risk. It is a new business model based on trust and mutual benefit for everyone at every step of the value chain."

Your Action Points:

1. What and/or who are your key alliances?
2. What areas for new alliances exist?
3. What benefits (direct and indirect) are you deriving from your key alliances?

Notes:

best
practices

Production, Innovation and Environmental Management

Production and operations management are important to a successful farm business. Farmers are very interested in farm production methods, and leading farmers proactively introduce new ways of doing things better and more efficiently. This is well documented in the farm business literature.

This includes use of new technologies and genetics or even seeking out new findings of importance from leading researchers. Usually these aspects are tied deeply to a tangible product, commodity or niche item that is targeted to a very specific end user need. Additionally, innovation and applied new research methods and/or new approaches as a “first to try” farmer, can result in a significant difference in overall success.

A best practice of the leading farmers is that they are production driven and produce more than the benchmark average. They know how to squeeze more out of the same or fewer resources.

A recent area of increased management focus has been the addition of environmental farm plans and management of resources for minimizing environmental impacts. This aspect will require more attention in the future. Leading farmers are environmentally conscious, understand fragile ecosystems and the collective impact of environmental related considerations on their businesses.

A caution noted is the focus on production. The real challenge is to harness those resources towards high paying market opportunities through excellent business practices. Thus while production management is an important area, leading farmers indicate that they consider investment in production (both actual inputs and managerial focus) within a balance of the market opportunity. If everyone is an excellent producer and has the same outputs for sale, how can one expect a premium in the market? This provides the motive to be innovative, seek out beneficial research findings and proactively work to capitalize on opportunities.



How do some Western Canadian farmers view production, innovation and environmental management?

"Strengths of our farm include good, fertile soil, water nearby, and a climate conducive to producing a quality product. Other strengths include our location, being close to processors and our strong labour force. We believe that agriculture has a huge job ahead to gain the public's confidence in the food we produce. I am somewhat unclear as to how this will be accomplished, but it has to happen."

"Try to produce something that is in demand. Make sure you have a good strategic long-term plan and stick to it. There are all kinds of opportunities out there, think out of the norm, use your imagination. Then plan well—how are you going to grow and sell the product?"

Your Action Points:

1. What are your key production strengths?
2. What are some areas for improvement?
3. How do you use research and innovations?

Notes:

best
practices

Financial and Asset Management

Financial and asset management are critically related to long term survival and short term working capital management. Financial management includes using computer based accounting; financial statements prepared and analyzed on accrual accounting; and inventory management systems. This information is organized in an integrated fashion such that it can be used when making management decisions. Many farmers simply manage on a cash flow and tax planning basis. Leading farmers apply more of a management focus to financial and asset management, understanding what investment they have in their businesses and what returns they can expect.

Financial management decisions are often made after a detailed budget analysis of the costs and returns of a decision. Leading farmers report that they apply scenario analysis to better judge the risks and rewards of these decisions.

Asset management means using the investment in land, buildings, livestock and other financial assets, to best advantage, to achieve optimum returns—returns that in turn better enable management to achieve the overall farm vision.

The application of key indicator analysis (ratios) to the business management decision making process is often used by leading farmers. Key indicators are liquidity, solvency, financial efficiency and profitability.

The best practice farmers exercise good expense control and manage investment in capital, avoiding overcapitalization and maximizing returns to the investment in their businesses. Leading farmers make management decisions related to capital investment based on key performance indicators, understanding what returns they require on the investment, what capacity they have for repayment when debt financing is required, and the risks of increased leverage.



How do some Western Canadian farmers view asset and financial management?

"I rated financial management the highest. I have always had a financial plan for my farm operation. For many years it was a spreadsheet with a cash flow and basic projections. This satisfied my lender and still does. However, I have recently engaged a management consultant to prepare a budget and cash flow for the overall operation. We then incorporated this information into a detailed business plan, which considered several alternative scenarios. This business plan was essential to getting my finances lined up before spending any more money. My main goal is profit."

Your Action Points:

1. What are your key financial indicators?
2. Do you make management decisions based on indicators (ratios) or cash flow?
3. Do you have profitability targets (e.g. return on equity and investment)?

Notes:

best
practices

Marketing Management

In the last 10 years a new emphasis has been placed on the importance of marketing and a customer focus. Recently, the introduction of value chain theory and models to Canadian agriculture has occurred and is imparting new disciplines into the sector.

Marketing is a function of your business focus or strategy. Leading farmers report differing approaches to this area of management, related to their business focus or strategy. For example, the business focus can range from marketing primary production through established and indirect channels. At the other end of the spectrum, the focus can be to add value to primary production and market directly to an identified consumer grouping.

Given any business focus, marketing and knowing the customers' needs and wants are important elements that leading farmers consider when formulating marketing plans.

Being market driven is a key principle for success. Marketing management involves some basic steps:

- Conducting and applying market research to understand product, prices, costs of production, competition and related issues
- Identifying a target customer profile (older, younger, ethnic, tastes, preferences, colors etc.)
- Developing a marketing and selling strategy
- Developing a mindset for continuous market intelligence based on market changes

Typically in the leading farmers research, we find that one person is the main marketing person for the farm or even for a co-op of several farmers. Marketing decisions need to be timely. For example, some crops need to be contracted in advance through single desk agencies.

Marketing is not a difficult thing to build into the farm management activities. As a rule of thumb, about 10% to 15% of the normal management time available should be allocated to marketing. In terms of funds, many businesses will spend from 5% to 10% of costs in this area.

Leading farmers report that they are able to sell their product for a premium in one of three ways: niche markets (differentiate), joint marketing or value added ventures. (This is in addition to commodity sales.)

How do some Western Canadian farmers view marketing management?

"Our farm's marketing strategy began in 1998 by looking at an undeveloped consumer market for natural meats, where very little in province, large scale competition exists. We responded to this market opportunity by developing an integrated system, on in which we produce the feed, raise the animals, process and market meat products. All poultry and livestock are raised in a humane, stress free environment, on a healthy, vegetarian diet. By taking a consumer view of the market need, we have been able to identify a highly profitable niche for ourselves and a loyal customer base."

Your Action Points:

1. What is your business focus and what marketing strategies have you implemented?
2. Who are your key customers?
3. What new markets / new products are you exploring?

Notes:

best
practices

Confidence and Motivation

Having confidence and motivation is recognized as a critical area of competence and practice in business. Leading farmers indicate that this is a key element in managing their successful farm businesses. Business, political and sports leaders are increasingly seeing that confidence is a differentiating factor in being able to achieve and sustain success. Being able to mentor confidence for others and see reasons to persevere is a special quality. Developing these capacities and attitudes reflects, supports, and advances the notion of motivation and confidence. This is a new area not widely explored before in terms of its application to farm business management.

“Confidence guides many personal decisions about what to do next. Individuals run a mental calculation to determine whether their personal investment will produce positive results. Winners decide if it is worth the extra effort. But if someone concludes it is not worth trying, the outcome is fulfilled.” (Roseabeth Moss-Kanter, Confidence).

Confidence occurs at four levels:

- Self confidence and setting high expectations
- Confidence in others—team behaviors
- Confidence in the system—the routine and the approaches used
- External confidence—building networks to resources for a virtual cycle of success

Leading farmers are exceptionally well informed. They are good listeners. They are very effective at sorting out relevant and irrelevant information. The best know how to sort, evaluate and prioritize information quickly, enjoy what they are doing, have a good work ethic and enjoy family and employee support.



How do some Western Canadian farmers view confidence and motivation?

This farmer rated high relative to other survey participants in the area of motivation. He said what motivates him is doing something he likes and doing it well. The “almighty dollar” is also a motivator, so profitability is always a measure of success for this farm operation. He believes that he has put so much into the operation that he is now motivated to keep it profitable for the next generation and to support him in his retirement. He wants to make sure he is able to do the things he wants to in retirement. He plans to travel and experience different cultures. For enjoyment right now he tries to get off the farm for a period of time each winter. He finds this revitalizes him in that it gives him a vision of his future in retirement but on the other hand the work that is left behind is a burden.

Your Action Points:

1. How do you build confidence?
2. How do you motivate yourself and others?
3. Do you have a “peer group” to help in motivating?

Notes:

best
practices

“Leading farmers enjoy what they are doing- with passion and fun.”
Al Scholz, A.N. Scholz and Associates

Summary of the Best Management Practices

The nine best management practices identified in research and comparisons with other businesses offer sound ideas for action. The list includes:

- Vision
- Leadership
- Risk Management
- Human resource management
- Relationships and alliances management
- Production, innovation and environmental management
- Financial management
- Marketing management
- Confidence and motivation.

An example of the web based self-assessment tool shows an actual relative score of one the participants. The on-line management self assessment is available to farmers. The results reveal relative areas of management strength and weakness. Participants can elect to focus their attention on their strengths or their weaknesses, taking appropriate actions and seeking out other resource materials and outside coaching as needed.

www.leadingfarmers.com.

Relative Score Compared to Other Leading Farmers



Gap in knowledge and skill in human resource management and marketing - could out source these

5.0 How Do Western Canadian Farmers Measure Up?

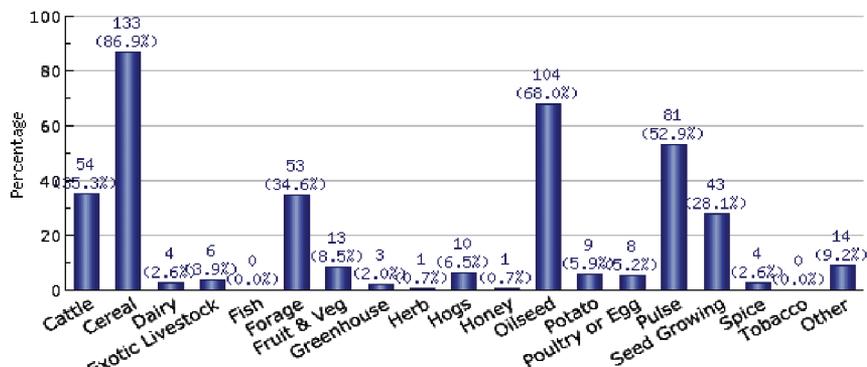
5.0 How Do Western Canadian Farmers Measure Up?

The previous section provided some “testing” of your management practices against a checklist. That was validated in research based on the actual management practices of 153 leading farmers across Western Canada in 2004.

Profile of the Western Canadian Farm Sample

A total of 153 farmers from Western Canada participated in the survey. The website survey tool is at www.leadingfarmers.com.

What type of Enterprises are Included?



153 responses

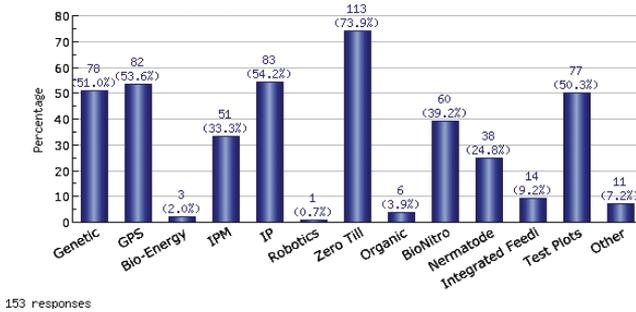
The ownership structure shows that 63% are corporate models; 15% partnerships; and 17% sole proprietors.

The Best Practice Benchmarks

Technology Use

From the survey, 50% are first to try a new technology once they are aware of it. Another 44% wait to see it proven in use by another leading farmer/ peer.

Production Technologies in Use at The Farm

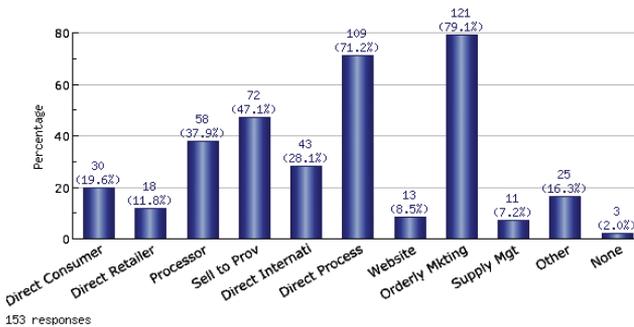


Research and Development is Important to Leading Farmers

From the survey it is clear that leading farmers invest in research and development activities, whatever that may mean to them. This can include buying new equipment and devices, information products, piloting and testing and seeking out new technologies. For this group of farmers, most (71%) seem to spend from 1% to 5% of the operating budget on research and development.

Marketing Activities

Marketing and developing a customer focus has been a primary focus for many in the last decade. We are moving into the decade of change where many new opportunities will develop from a market driven approach and entrepreneurial actions.



Marketing actions are an interesting finding of leading farmers. Most farmers (80%) indicated that they market at least a portion of their production through an orderly marketing method (such as the Canadian Wheat Board).

In addition and highly interesting, the next most important method is to sell direct to a processor (for 71%) and then selling outside their home province (47%). About 35% of these farmers sell direct to consumers (these farmers have sales from \$1 million to \$1.5 million annually). Those with either vegetables or fruit will generally sell direct to consumers and retailers.

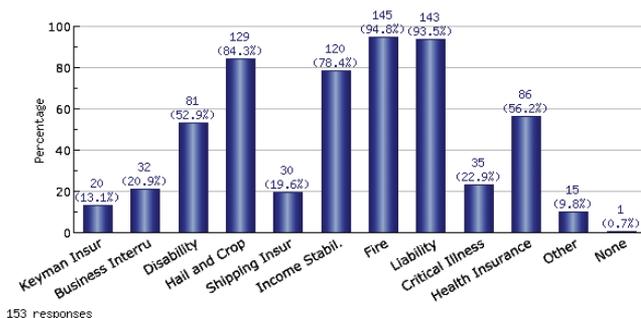
Value Adding Can Positively Impact on the Bottom Line

Adding some value to the raw crop or livestock is an important activity for 61% of the sample group. This shows how people can increase both profitability and farm growth. Interestingly, 95% of these farmers say it positively increases the farm profits over the base commodity.

Risk Management Is Important

Leading farmers deal with risk management with:

- Pricing options — use of deferred delivery, forward contracts, futures, options, basis contracts and lot sales
- Insurance — use of fire, liability, income stability, hail and crop, health, and disability
- Use of a written risk assessment plan is low by only 12%
- Use of a written health and quality plan is low at only 24%.



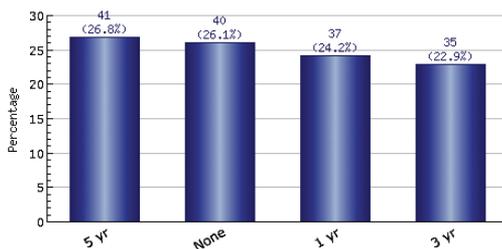
What Are My Key Farm Goals?

Research shows that farmers generally have specific goals. The top three goals are:

- Profitability — trying to achieve best return on the investment in the business
- Growth — trying to expand the farm to meet a market demand
- Increasing the net worth and wealth of the farm

Do You Use a Business Plan?

A majority of the leading farmers have a written business plan.



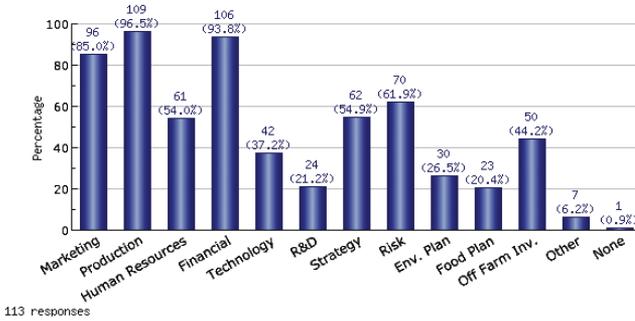
Importantly, the study reveals that as the size of farm receipts increases, so does the use of a business plan. Nearly 92% of farmers with sales from \$1.5 million to \$2 million have a business plan but only 65% of farmers under \$500,000 in annual sales have one. This is not a prerequisite to size and sales, but one of the sayings in business is “plan it and do it”.

What are the Most Important Components in a Business Plan?

The top five areas of management attention in a business plan are:

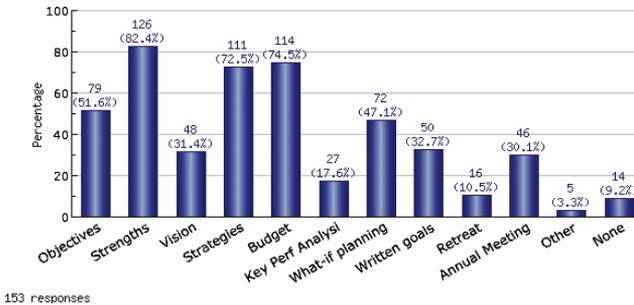
- Production
- Financial
- Marketing
- Risk
- Human resources issues.

The chart below shows the sample findings.



How Do You Conduct Your Strategic Planning?

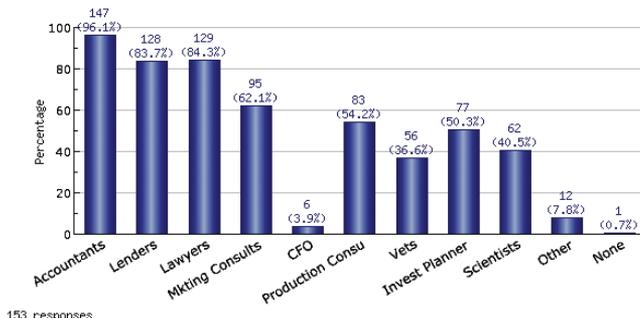
Leading farmers report that they actively incorporate internal strengths, weaknesses, opportunities and threats into their strategic planning.



Some of the leading farmers conduct their planning on-site with their management team, which can include employees, the spouse, a brother or son. Others go to an off-site retreat location where they can fully engage in planning without distraction.

Do Leading Farmers Use Outside Experts and Advisors?

Leading farmers actively engage outside advisors like accountants, lawyers, business and management consultants.

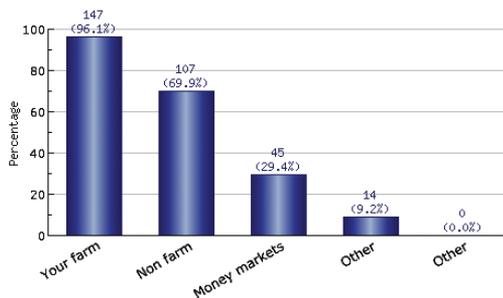


Asset and Financial Management Aspects

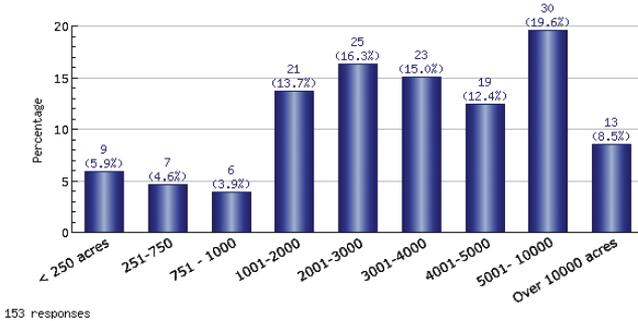
Asset management is one clear criteria that differentiates sustainable and long term industry survivors.

The research shows that most (67%) use accrual accounting to manage their farms. Further, nearly 90% use a profit and loss measure by each business unit to judge actions. Nearly 95% of Alberta farmers and 94% of Manitoba farmers use budgets, while a slightly lower number in Saskatchewan do (84%). This indicates that leading farmers are attempting to diversify their investment portfolios.

Future Investment Plans



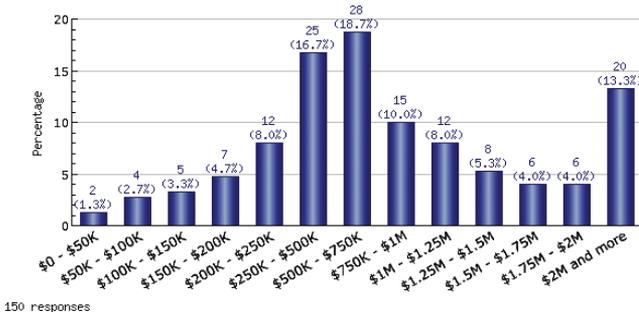
Number of Acres Under Management



The chart above shows that the leading farmers involved in the survey are substantial in their acres farmed. It is significant that most involved in the survey have over 1000 acres (compared with Canada at 1000 on average).

Revenues from Farm and Off-Farm

Farm Revenues

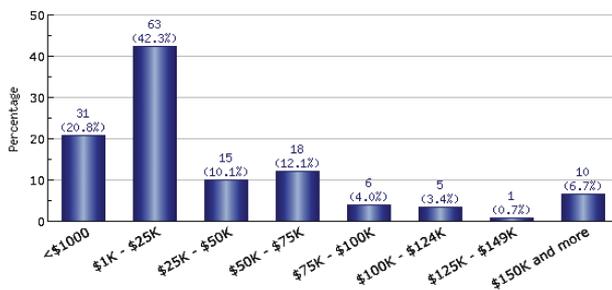


The farmers surveyed generate significant levels of gross revenues.

- 34.6% earned \geq \$1,000,000 in the last fiscal year
- 13.1% earned between \$1,000,000 and \$1,499,999
- 7.80% earned between \$1,500,000 and \$1,999,999
- 13.1% earned \$2M or more
- 28.7% earned between \$500,000 and \$999,999
- 36.7% earned < \$500,000

Off-Farm Revenues

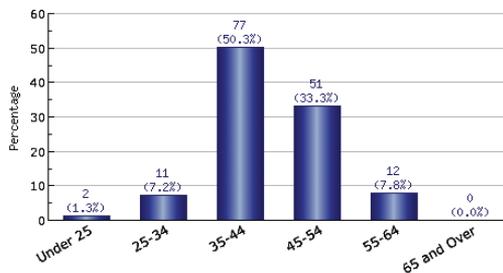
Some off-farm income was received for this group of farmers (but this is not significant).



149 responses

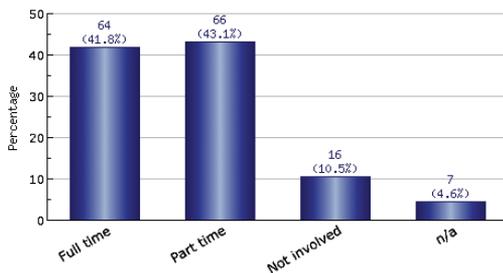
Age of the Farmers

All ages were represented in the survey sample, but most were 35 or older.



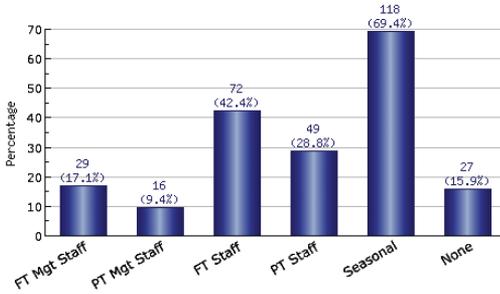
Is the Spouse Involved?

A spouse is involved in the management team for nearly 84% of the farmers surveyed. In these cases, the spouse is in an ownership role (76%), manager role (30%), laborer role (31%) or other role. Spousal Teams are the norm.



Employees on the Farm

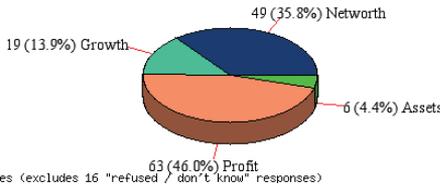
Finding and retaining labor is an issue.



170 responses

How would you rate your goals?

Item	Importance (1 to 5 high)	Leading Farmers
Profitability		1- top
Build Wealth		2-next
Growth		3-lowest



137 responses (excludes 16 "refused / don't know" responses)

This information provides a background on the farmers involved in the best practice survey. How well do they rate on management practices?

6.0 Self-Assessment – How do My Skills Measure Up?

6.0 Self Assessment — How do My Skills Measure Up?

From the research of leading farmers the nine key areas are:

- Vision and strategic positioning
- Leadership
- Human resource management
- Relationship management
- Production, innovation and environmental management
- Risk management
- Marketing management
- Financial management
- Confidence and motivation

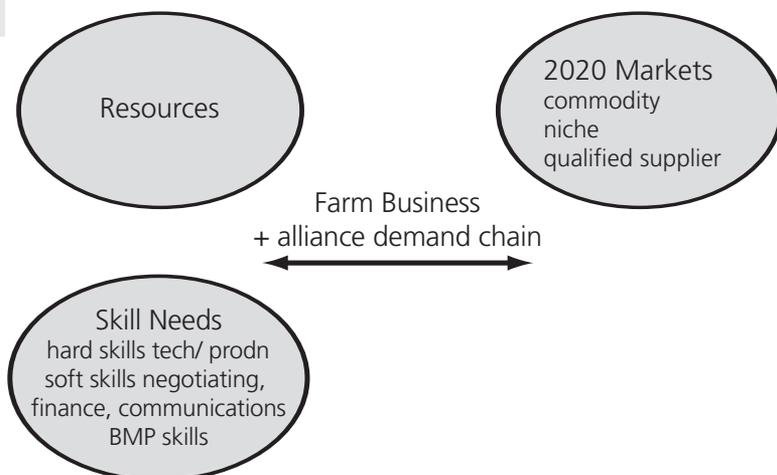
Strategic positioning means what your vision is for the farm and the products you will produce and market. Production and marketing management deal with the operational aspects of the farm business. Risk management and financial management are linked management practices. This is the area of asset management which can be critically important to long term survival and growth.

As in all businesses, people make things happen and human resource and relationship management are key to managing the farm business effectively. Finally, motivation and confidence are very important aspects to achieving the dream.

“Everyone needs an outside perspective from people they respect. Farm executives need to be part of a peer group where they are safe to throw out ideas, let down their guard and share issues and concerns.”

Dr. Danny Klinefelter, Texas A&M

Best Practices Farm Model



**BPG Survey - Top 25%
Of Leading Farmers**

**BPG- The Total
Farm Sample**

**Comparison with
Other research**

Vision and Strategic Positioning

100% assess SWOT
97% use acct/ lawyer
95% have a strategic plan
82% use consultants

96% use acct, 85% lawyer
83% assess SWOT
74% have a strategic plan
62% consultants

16% have a written
business plan

Leadership

87% have good
working relationships
66% have a farm vision

48% have good relationships

26% have a farm vision

Production/ Innovation Management

97% use computers
94% use computers
81% first to try

50% first to try
40% have computers

Marketing Management

76% add value to commodities
75% generate revenue
from products

79% have revenue
from products
60% add value

Risk Management

89% income stabilization
73% basis contracts
71% forward contract
37% written risk plan

79% income stabilization
60% basis contracts
58% forward contracts
12% written risk plan

36% forward contract
26% basis contracts

Financial and Asset Management

92% P&L by unit
82% plan off-farm investments
71% accrual acct

89% P&L by unit
70% plan off-farm investments
67% accrual acct

Human Resource Management

89% learn locally, 53% have
performance appraisals
37% written succession plan

76% learn locally, 32% have
performance appraisals
24% written succession plan

50% have performance reviews
14% have succession plan

Relationship Management

100% belong to assn
65% have formal agreements
45% within co-op/ group marketing

97% belong to assn
55% have formal agreements
44% within co-op/ group marketing

Confidence and Motivation

79% strongly agree proud to be a farmer	61% strongly agree proud to be a farmer
68% agree they motivate others	26% agree they motivate others

Note: BPG= Best Practice Group which conducted Western Canadian research in 2004.

How Well Do I Do?

The best management practices provide a benchmark for you to consider in your family farm business. Do your own assessment for a quick analysis. From this self-assessment tool, you can proceed to improve business systems, management practices and balance personal interests with skill building and by engaging outside help. For an online assessment against the total Best Practice farm sample (this has over 200 samples included to date) go to www.leadingfarmers.com and complete a 20 minute survey. A summary report is then available for your information and actions. Your information will be kept confidential.

Snapshot Management Rating Guide

BPG Survey - Top 25% Of Leading Farmers	Your Management Practices	Score Yourself Per Category (1=low, 5=high)
--	--------------------------------------	--

Strategic Positioning

100% assess SWOT**
97% use acct/ lawyer
95% have a strategic plan
82% use consultants

Leadership

87% have good
working relationships
66% have a farm vision

Production Management

97% use computers in management
81%-first to try something new
63% use production consultant

Marketing Management

84% market direct to processors
76% add value to commodities
75% generate additional
revenue through marketing

The Knowledge Guide

Risk Management

85% use asset management strategies
73% use contracts
62% have written contingency plans
37% have written risk management plan

Financial Management

92% analyze profitability by unit
82% plan off-farm investments
71% accrual accounting

Human Resource Management

66% learn nationally
53% conduct performance appraisals
37% have written succession plans
34% internationally

Relationships & Alliances

100% belong to assn
65% have formal agreements
45% within co-op/ group marketing

Confidence and Motivation

71% indicate they have the business management skills to achieve goals and vision
68% indicate they motivate others

Total your ratings

—

Total Score =

** SWOT refers to Strengths, Weaknesses, Opportunities, Threats as they relate to your business

If your score totals over 30, it would appear that you are generally using many of the best management practices. However, each of us has room for continuous improvement and your individual detailed assessment will provide you with a relative indication of strengths and weaknesses. You can use this information to better understand your management focus.

Managers have the option to capitalize on areas of strength or make improvements to address areas of weakness. If your focus is on your strengths, it is still important to understand the areas of weakness. Leading business managers will look to independent qualified expertise to address areas of management change and weakness.

If your score is between 20 and 29, it would appear that, in relative terms, you are reporting average application of best management practices. Your management assessment will likely reveal some areas of strength. However, it could also provide a general indication of a need to address certain areas of management. Given the rate of change in agriculture, the increasing demand for investment (both in terms of capital and of your time), the narrow profit margins and increasing risk in your business, it is important that you advance your management skill set. The first step is to work through a process that provides a more detailed assessment.

If you have a score that falls below 20, it would appear that in relative terms, there is a strong need to address some of the key aspects in your management practices. You run the risk of falling further behind the leading farmers in terms of the application of best management practices. It is difficult to measure what this might mean to your business and in all likelihood, the measurement would be incremental over time. However, again, given the realities of agriculture, and as farms become larger and more complex, failing to address management concerns could be significantly problematic. Outside management expertise can provide assistance.

Summary of Best Management Practices

This Knowledge Guide provides an overview of some of the key changes facing the agri-food sector in the next decade of change.

From the information presented in the survey results section (of the best management practices of leading farmers) it is clear that some farmers achieve better results than others, in the same basic business. The differentiation is in the application of best management practices employed by the top farmers who generate better results.

Information related to best management practices in agriculture is difficult to locate and identify. It is even yet more difficult to measure and apply to your business.

The Snapshot Management Rating Guide identified your key strengths and weaknesses and will have potentially also revealed broader business system issues. You can use this Guide as a simple strategy resource to help you take action.

Suggestions for your Next Steps

Suggested next steps should include:

- Reviewing this best management practices document
- Completing the Snapshot Management Rating Guide
- Completing the on-line assessment of best management practices
- Organizing and conducting a meeting to discuss the results with your Management Team, which can include your spouse, your partner(s), your family
- Discussing results with external management advisors
- Developing and implementing a plan to address management practices
- Continuing to search out and better understand how to apply “Best Management Practices” to your operation

Good luck in your endeavors to grow and meet the current and emerging food industry needs.

Best Practices – Future Farm Model



The Future of Farming and Farms

It is becoming clear that farmers need to consider several things in their pursuit of a successful and vibrant business model for the future. Three conclusions seem to be clear from discussions with successful “international peer” farmers from the USA, Latin America and Canada attending a recent conference in Mexico. Three activities seem imperative:

- Selling more value added products, some through their own retail stores
- Employing more collaborations and demand chains
- Applying the concept of best management practices

Since that conference we have had the opportunity to further test the BMP concepts and ideas with many other farmers and experts. They seem to hold up.

If these new farm business strategies are used then a stronger and more profitable farm business seems to be more likely. In fact, many governments have seen the value added product trend and the need to innovate. They are assisting farmers and food processors to identify and respond to these new global food and non-food demands.

In recent research we have conducted, the Canadian farm sector may lose another 11% or more farms in the next 10 years. Recent conducted by Dr. Michael Boehlje, Purdue University, indicates that the USA farm sector may see a decline of nearly 20% of farms over a similar period.

In 2006 the World Trade Organization will likely implement a new global deal for agriculture, which will discipline domestic support and attempt to open up markets and reduce subsidies. These pressures will force farmers to seek new and innovative solutions in their home countries. Thus the race to competitiveness continues.

Farmers of the future must realize that they need to change. Many global markets will only accept food with certain specifications. The EU does not accept GMO derived products- how does this affect farm plans and futures? Japan will not accept beef which is not BSE tested and verified. "Think global but act local" is still valid.

Farms of the future will have different operating parameters as noted in the diagram. Farms of the future may be one of several types:

- Commodity based farms- the commodity markets will continue but in a lesser degree. Many farms assume this market will continue unabated.
- Niche based farms- those farms which respond to niches in their local markets and elsewhere will continue to increase with higher margins through core customers. These niches will be developed around a product idea, including the "clean and green products", food for health products and agro-tourism products mainly.
- Qualified supplier farms- this will increase with the advent of testing, monitoring and supplier driven specifications for food to prove safety and production protocols. The use of environmental farm plans may assist to further this endeavor.
- Diversified farms with off-farm businesses- a trend which is emerging is that of off-farm investments into allied businesses which complement the farm and can allow for new growth opportunities.
- Farms attracting urban- based investments into farms- as non-farmers see an opportunity to invest in a qualified and acceptable farm which fits with the values of the non-farm investor. Also, some governments are encouraging this investment with legal vehicles and policy to ensure access to new capital and new resources.

Within this new global farm sector, what is your strategy and vision for the future? Who will help you to adapt and change? Learn from the best and be proactive.

Appendix- Strategic Thinking Framework

Farm Business: _____ Date: _____

Vision: To be _____

Mission: _____

Strengths

-
-
-
-
-

Weaknesses

- -
 -
 -
 -
-

Opportunities (1-3 Yr)

-
-
-
-
-

Threats

- -
 -
 -
 -
-

Key Goals

-
-
-
-
-

Clients/ Customers

- -
 -
 -
 -
-

**Performance Measures
(financial and non-financial)**

-
-
-

Strategies/ Tactics

- -
 -
-

leading
farmers

References

- Best Practice Group, Best Practice of Leading Farmers, Agriculture and Agri-food Canada, 2004
- Darrell Toma, Alberta New Gen Co-ops, Governance and Management: Developing a Management Resource, AAFRD, 2003
- Darrell Toma, Alliances to Compete, Beefnets Sydney AU Conference, 2002
- Darrell Toma, Best Management Practices, Agri-Industry Applications, APPEX Conference, Texas A&M, February 2005
- Dr. Michael Boehlje et al, Farmers of the Future: Market Segmentation and Buying Behavior, 2004
- Dr. Rosabeth Moss-Kanter, Best Practice, Ideas and Insights From the World's Foremost Business Thinkers, 2003
- Dr. Rosabeth Moss-Kanter, Confidence, 2004
- Dr. Robert Kent, Principles of Managing People, Pragma Press, 2004
- Jim Collins, Good to Great, 2001
- Noel Tichy, The Leadership Engine, 2002
- www.leadingfarmers.com



