



STRATEGIC APPROACH TO FARMING SUCCESS

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ABSTRACT

This paper is an abstract of a new book for farmers launched on April 8, 2005 (Nell & Napier, 2005).

The two authors, Wim Nell of South Africa and Rob Napier of Australia, have respectively 28 and 37 years national and international experience in strategic agricultural management. The book is written for farmers across the world and is dedicated to all farmers.

The book takes the reader on a strategic journey to farming success, which consists of 11 stages. At the end of each stage the reader has the opportunity to answer some questions that will guide the process of compiling a strategic plan for a specific farming business. The book opens new horizons for the modern farmer to manage the farming business more successfully.

Key words: Farming success, strategic approach, strategic farming, scenarios, holistic management.

INTRODUCTION

Success in farming is a journey full of challenges and opportunities. To be successful in farming, the modern farm manager needs to adapt swiftly and with accuracy to changes in the immediate and global environments. Successful farming, therefore, involves a precise feeling for the current farming business and where the business enterprise is headed. The question is whether the direction in which the farm intends to move in future, is indeed the desired direction that will allow the farmer or farming family to ensure sustainable success and achieve their goals.

Given the dramatic changes being experienced in agriculture, there has never been a more opportune time to think and plan strategically for the future. Strategic management should, therefore, be a way of life to the modern manager who actively pursues future success. In some farming businesses individual farmers or managers will manage the farm. In other farming businesses some management tasks may be delegated to family members, employees or to consultants, in which case all key members of the management team should be involved in the strategic planning and management process. Strategic planning and management is also a continuous process in which information (historical, current and predicted) flows through the farming business, and has an influence on the operational aspects.

In a number of countries marketing board structures have been replaced with deregulated markets, so managers have to add the role of marketer to their duties.

Farmers might consider the following question: “When you get up in the morning do you say, ‘I am a dairy farmer’ or do you say, ‘I am a food producer’, or, ‘I am an entrepreneur who happens to love farming, who lives in a certain part of the world – full of business opportunities’?” In which way do you talk to yourself? The really winning managers have redefined the way they view themselves. At the very least, they say, “I am a food producer”. Now, when you say you are a food producer, rather than a sheep farmer, you immediately think, “I need to

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build relationships through the supply chain, all the way to the consumers, and I need to have a marketing focus.” An average farmer with a good holistic strategy is in a much better position than an outstanding farmer who is only production focussed.

Changes in the agricultural environment have forced managers to adopt a thinking style that deals with integrated wholes. Thus, there has been a shift towards holistic thinking that requires managers to think in terms of a system, or the process, as an integrated whole. All farming businesses have come up against the challenge to identify competitive strengths within the total process, and then to develop strategies in such a way that a competitive advantage is secured. Managers, therefore, face the challenge of achieving a sustainable competitive advantage by means of strategic thinking. The process of strategic planning and management can only be successful if it is approached from a multidisciplinary angle, and is executed in an integrated manner.

Managers have to be small and act big. In other words, individual managers who are trying to do all their purchasing, all their information management, and all their marketing on their own, will have a severe competitive disadvantage to the other farmers who say: “We want to preserve as much of our independence as we can, but we are prepared to give over some of our independence to cooperate with other farmers to obtain purchasing power, information power, and management power.” Once the production units on the farm operate successfully, they are integrated with the macro system, as well as the input supply system.

APPROACH AND METHODOLOGY

In the book a systems approach to agricultural management is followed, because no farming business will be able to obtain and maintain sustainable success if it operates in isolation. The system developed by Wessels, Mosime and Seitheisho (2000) has been adapted into a total agricultural, agribusiness or food and fibre system (Figure 1).

In the new system (Figure 1) farmers should not see themselves just as producers “in the farming business”. They now need to see themselves as an integral part of the food/fibre industry.

RESULTS

The systems approach which was followed, resulted in a model that can be used by farm management teams to manage any kind of farming business (big or small, established or emerging) in a holistic way. The most important features of the model are that it will assist the management team to create competitive advantages and expand management capacity. The model of the journey to farming success consists of the following stages.

Mission, vision and culture

In Stage 1 the mission, vision and culture of the farming business are formulated. The mission stipulates what kind of farm it is, who the clients are, how the products are produced and why the farming business exists. The vision, on the other hand, creates a picture of what the farming business wants to achieve in the future. The mission is therefore the beginning, and the vision the end. The mission of the manager of the Green Valley case study farm, John Lamb is: “The mixed farming business strives to satisfy its customers nationally with grain and meat produced with the best technology available, and to manage the resources sustainably with a highly motivated workforce.” John Lamb’s vision is “to optimise productivity of direct productive assets with competitive strategies to achieve a return on equity that is greater than the return on total capital applied (Re>Ro).



The culture of the farming business is the oil that helps people to work together with a common purpose and to understand the rules of interaction within and beyond the workplace. Values are an important part of the image of the farming business. A favourable image helps to attract good human resources and obtain client support.

Analysis of the external environment

After the management team has determined where the business is, what they want to achieve in the future and what binds the workforce together, it is important that they undertake a journey outside the borders of the farming business. During the second stage, the management team will identify opportunities and threats within the macro and business environment (Figure 2).

Creativity and entrepreneurship of the management team will play a decisive role to identify opportunities that will help to create competitive advantages.

The major drivers of change in agriculture and agribusiness are shown in Figure 3.

There is a marketing revolution forcing farmers to think in terms of customers, value chains and the requirements of the total food/fibre systems. Farmers are generally struggling to acquire the knowledge, skills and attitudes to manage this change.

Globalisation and consolidation in the food sector is continuing. In some countries, less than four large supermarket chains control more than half the retail food market. There is similar consolidation in food processing. In the USA, for example, four meat packers handle over 80 per cent of beef production.

Government policies are volatile with 'knee jerk' reactions to disease outbreaks such as BSE and new 'free trade' agreements that alter the marketing landscape.

Figure 3: Drivers of change

New technologies are favouring early adopters with high level management skills and sufficient scale to use the technologies effectively.

The list of consumer demands is lengthening with increased emphasis on food safety and traceability.

The general community is pressuring decision makers on issues such as environmental management, animal welfare and land use patterns.

The consequences of the drivers of change are shown in Figure 4.

Mainstream food and fibre systems are becoming much more integrated with transparent information flows through supply chains to ensure quality, traceability and reliability.

Alternative food systems are emerging as a counter to the power, consolidation and industrialised processes of trans-national companies. This is opening up opportunities for value-adding by small businesses.

There is a strong trend towards a smaller number of larger farm businesses at one end, increased small lifestyle farms at the other end and a 'disappearing middle' of medium sized farms.

Value-adding is a major challenge with most farmers locked in to commodity production where margins are almost always low. The margins on niche products are rapidly eroded as 'today's niche is tomorrow's commodity'.

Scenarios are based on the matrix approach developed by Ilbury and Sunter (2001). They follow the basic approach of Sherlock Holmes's line of thinking: "first eliminate the impossible before concentrating on the possible". One of the most important uses of a scenario is to

determine the results of some possible, unexpected outcomes in the future. An example is used in the book of a farmer in the Eastern Free State in South Africa, who already had an idea in September 2003 that the current maize price crisis might occur and built it into his scenario. At that stage he already started to plan his farming business, and organised his business in such a way that he managed to market 40% of his maize crop through his livestock. In this way he managed to add value to the maize price in a very significant and economic way. The paradigm shift process applied to agriculture, is also attended to during this stage of the journey.

Analysis of the internal environment

In the third stage of the journey to farming success, there is a complete critical evaluation of the resources on the farm, where the strengths, successes, weaknesses and failures are identified. The management team must therefore know the farming business very well at physical, technical, economical and financial levels. If not, the management team will miss critical strengths and weaknesses, which may cause an important competitive advantage to be missed or the wrong strategies to be followed. In this stage it is important that the management team knows exactly what the different norms are of critical benchmarks. If the lambing percentage of a dual-purpose sheep, is 95% and the norm is 120%, which the management team is not aware of, wrong decisions can be made which can make the whole strategic planning process a futile exercise.

Strategic analysis and choice: developing a competitive advantage

“The significant problems we face today cannot be solved by the same level of thinking that created them” (Albert Einstein).

During Stage 4 the management team prioritises the different opportunities, threats, weaknesses as well as successes and failures to determine the farming business’s competitive advantage. This will run as a golden thread through the whole strategic planning and management process and the strategies will be built on the competitive advantages identified during this stage. Each farming business is unique and in some cases the competitive advantages are evident and in other farming businesses it will take more energy to identify them.

Long-term goals

The long-term goals, which should be the same as the vision of the farming business, are formulated in Stage 5. The long-term goals consist of financial, strategic, personal, family and succession goals. The long-term goal of Green Valley, the farming business of John Lamb, is to increase profitability of the farming business to such an extent that the return on equity (Re) becomes and remains greater than the return on investment (Ro). At the beginning Re is less than Ro and if John Lamb could not manage to make Re greater than Ro, the financial position of the farming business will weaken gradually and his own capital will decline.

Main strategy

The question of how the long-term goals will be achieved will be answered in Stage 6 where the strategies of the farming business are determined. In the case of Green Valley the financial leverage will become positive as soon as the farming business pays less interest. What will the management team do to reduce interest? By means of paying debt. Debt is paid with profit and profit can be increased by improving the productivity of direct productive assets (land and livestock). In the same way different strategies can be formulated. Functional strategies consist of production, marketing, financial, human resources, management and operational strategies.



Short-term objectives

Stage 7 focuses on the answers to the question: “WHAT must be done at which STANDARD, and WHEN?” The short-term objectives and actions are formulated during this stage. Short-term objectives must be specific, measurable, agreed upon by all stakeholders, realistic, and also attached to a time schedule. These actions must be implemented or achieved within twelve months.

Functional tactics

Stage 8 refers to the functional tactics which consist of production, marketing, financial, human resources, product development and research tactics. During this stage management will determine whether there are enough resources available to implement actions and whether the short-term objectives will generate the required results. If managers notice that the envisaged results will not be achieved, the journey to success must be interrupted and they must go back to any of the previous three stages and the necessary adjustments made. If the required results will be achieved as expected, then the management can depart to the following stage of the journey.

Key implementation policies

At Stage 9 the management team must make sure that the key implementation policies are in place or must be formulated so that the implementation of the actions and strategies run smoothly. Here the focus is on policy which will empower human resources, and also on the necessary financial and operational policies. The use of delegation plays a very important role at this stage, because a major purpose of strategic planning and management is to enlarge or expand the management capacity of the team.

Implementation

In Stage 10 the table is set to implement actions and strategies. The answer to the following question is determined at this stage: WHO is responsible for WHAT?

Strategic control and repositioning

The last stage in the journey to farming success is strategic control. This is the stage of strategic management and planning which is neglected the most. A complete strategic control system consists of production, marketing and financial control. After the results of short-term objectives and actions are evaluated, the management team must decide whether success has been achieved or whether they must return to Stages 5, 6, 7 or 8 to put them on the right track to achieve success.

The management team will also have to determine whether the farming business must commit itself to continuous improvement, restructuring or repositioning for sustainable success.

Remember: “Strategic planning is not a silver bullet – it will not guarantee success. The process helps to develop creative problem-solving skills to identify problems or conflicts, generate new ideas, and provide a context to evaluate technical and economic information” (Miller, Boehlje & Dobbins, 1998).

CONCLUSIONS

One of the main purposes of this book is to develop and foster a management style in farming businesses of pro-active management; changing the workforce from mere workers or pro-

ducers to product managers, each in their own right, who will make a substantial contribution to the improved paradigm of farming success.

This step-by-step process or methodology for farm managers to create their own strategic plan, was developed with the inputs of farmers in South Africa and other countries. These managers have adapted their management styles accordingly, with a major focus on strategic thinking, which has led to prosperous farming businesses. Another major source of practical inputs was feedback from the farmers attending three-day courses on the Strategic Approach to Farming Success, on which this book is based. The global experience in strategic management in agriculture of the co-author contributed substantially to the practical approach of this book.

In some cases it may be useful for managers who want to formulate a strategic plan for the first time, to acquire the assistance of a facilitator; however, all the farmers attending the three-day short courses managed to formulate their own strategic plan by themselves, and only showed the final plan to the course facilitator for his inputs. We have one of the most exciting and best jobs in the world, thanks to our clients. Their farming businesses improve every year because of pro-active management and strategic thinking, taking well thought-through and calculated decisions. The most rewarding part of our jobs is a phone call or an e-mail message keeping us informed of progress, successes achieved and some questions on tactical and strategic decisions that have to be made. Readers are encouraged to start immediately with strategic planning, so as to eventually taste the sweetness of sustainable farming success.

For more information and to order the book, please visit www.farmingsuccess.com.

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