

## 2004 NATIONAL RENEWAL SURVEY: FARM BUSINESS MANAGEMENT PRACTICES OF AGRICULTURAL PRODUCERS

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### **Abstract**

*The 2004 National Renewal Survey, undertaken for Agriculture and Agri-Food Canada, provides information on Canadian farmers' knowledge and adoption of various business management practices, use of training, and business and personal goals. The survey was conducted in December 2003 and January 2004. It surveyed 2,112 Canadian producers who were the main decision makers and earned at least \$10,000 in gross farm revenues in 2002. Survey information is available on their goal achievement, business plans, financial management, training, and other areas of interest for policy and program development. Information is also available by farm typology (low-income, retirement, lifestyle, or business-focussed), major commodity and region. This survey work is being followed by two types of surveys in 2007. The 2007 National Renewal Survey will measure changes in business practices and training uptake since the 2004 National Renewal Survey. About 2,250 producers from the general farm population will be surveyed. The 2007 Renewal Client Impact Assessment Survey will measure specific program outcomes experienced by Renewal program clients. About 1,050 Renewal clients will be surveyed. This applied paper presents the results of the 2004 survey in greater details and analyzes farm management practices in Canada.*

*Key words: Farm management practices, Renewal survey*

### **Introduction**

Management is an important factor that differentiates one farm from another in terms of profitability. It is skilful management decision-making that empowers farm operators to profitably face numerous opportunities and challenges that have a direct impact on their farm operation. The success of farm businesses depends largely on how well farm operators manage their resources in the face of multiple factors, such as weather, which they cannot control.

Recognizing the importance of management to financial performance and, thus, of empowering more Canadian farmers to apply financial management skills to their long-term and day-to-day decision making, provincial, federal and territorial governments in Canada offer farmers a suite of management products and services. For example, at the national level, the Government of Canada through Agriculture and Agri-Food Canada introduced in 2003/2004 a number of initiatives to help Canadian agricultural producers access skills, knowledge and advice in the field of farm business management. Three of those programs are the Canadian Business Advisory Services (CFBAS) and the Planning and Assessment for Value-Added Enterprises (PAVE), which both provide producers access to consultants for business assessment and planning; and the Canadian Agricultural Skills Service (CASS), which helps participants increase their family income by providing access to skills and knowledge development activities.

To be able to gauge the success of these and other programs, and to fine-tune such programs, benchmarking the level of knowledge and use of management practices by Canadian producers in the early stages of the programs was needed. To that end, AAFC undertook a National Renewal Survey in

2004. The Survey provides information on Canadian farmers' knowledge and adoption of various business management practices and the level of attainment of business and personal goals in 2004. It serves as a baseline benchmark data in order to monitor changes over time and to assess the impact of Renewal initiatives on the adoption of management practices.

Information collected from the 2004 National Renewal Survey is one of the main data sources used for performance target setting and measurement of Renewal's performance indicators, which are the following:

- percentage of producers and farm families who have significant knowledge and understanding of business management practices;
- percentage of producers and farm families who are using business management tools, services, practices, and/or have improved their skills; and
- percentage of producers and farm families who are meeting their business and personal and family goals.

The National Renewal Survey is currently being undertaken again in 2007 and it is anticipated that another survey will be conducted in 2010 to measure the progress in reaching targets.

## Methodology

The 2004 National Renewal Survey was conducted in December 2003 and January 2004 by telephone interviews by Environics, a firm contracted by AAFC for that purpose. This report presents the results of the survey based on questions asked to 2,112 Canadian producers. When available, results from other surveys will be presented for comparison and further explanatory purposes. For the purpose of this survey, the following conditions were used to define a qualified respondent:

- the respondent is a farm owner,
- the respondent is one of the main decision makers and also looks after the business side of the farm such as, keeping the books, obtaining loans and paying bills, and
- the respondent earned at least \$10,000 in gross farm revenues in 2002.

The actual completion rate was 26 percent based on the number of completed interviews (2,112) divided by the number of qualified respondents contacted directly (8,026).

Once data collection was completed, the results were weighted by province and the main farm production type to reflect the distribution of the producer population reported in the *2001 Census of Agriculture* from Statistics Canada.

The margin of error for a true probability sample of 2,112 is +/- 2.1 percentage points at a confidence level of 95 percent. A margin of error of plus or minus 2.1 percentage points at this confidence level means that there is a 95 percent chance that the responses of the target population as a whole would fall somewhere between 2.1 percentage points more or 2.1 percentage points less than the responses of the sample. Margins of error are larger for regional and other subgroups, varying from a low of 2.1% to a high of 14.6% in the province of Newfoundland and Labrador.

## Results

Results of the survey have been summarized at the national level. Detailed statistics are also available by province, farm type and farm typology.

To determine the farm type, respondents were asked which agricultural product produced on their farm contributed the most to their gross farm sales. Results were tabulated for Grain and Oilseed, Cattle, Hog, Dairy and Eggs, and Horticulture.

Factors such as age, experience, business intentions, and sales class have been used to categorize farms into farm typology. The AAFC typology groups are:

- Retirement: farms managed by an operator 60 years of age or older receiving pension income with no children involved in the day-to-day operation of the farm.
- Lifestyle: small farms (revenues of \$10,000 to \$49,999) managed by families with off-farm income greater than \$50,000. This category excludes the retirement category.
- Low income: small and medium farms (revenues of \$10,000 to \$99,999) managed by families with total income less than \$28,000. This category excludes the retirement and lifestyle categories.

All other family farms are separated further, based on total revenues:

- Small business-focussed: Revenues of \$10,000 to \$49,999
- Medium business-focussed: Revenues of \$50,000 to \$99,999
- Large business-focussed: Revenues of \$100,000 to \$499,999
- Very large business-focussed: Revenues of \$500,000 and over.

### ***Goal Achievement***

Producers were asked to rank their most important business goal and their most important family and personal goal from a pre-selected list of goals established through producer focus groups.

For approximately one-third of survey respondents (31%), “paying off debts” was the most important farm business goal. The second and third most important farm goals were “maximizing return on investment” (26%) and “producing the best products possible” (23%). “Maximizing productivity” was selected by 15% of respondents. Very few respondents (<5%) chose “expanding the farm” as their most important farm business goal.

Two-thirds (64%) of respondents ranked “providing a reasonable income for my family and myself” as their most important personal and family goal. The second and third choices were “providing a good place to raise a family” (20%) and “providing a heritage to the next generation” (11%). “Being part of the community” and “learning new things” were selected each by 2% of the respondents.

A large number of producers reported that they were achieving either their business or family goals:

- almost 51% of Canadian operators reported fully or mostly achieving their top business goal, and a further 36% reported somewhat achieving it, and
- almost 57% of survey respondents stated that they have achieved fully or mostly their top personal and family goal, and a further 32% reported somewhat achieving it.

### ***Plans And Financial Records***

In the 2004 National Renewal Survey, responses indicated that 22% of Canadian farm businesses had a written business plan for 2003. This percentage is slightly higher than the percentage reported for Canadian farm businesses in a 2001 survey conducted by Ipsos Reid on the state of farm business management practices in Canada, the United States and Australia. However, the percentage reported for the 2004 National Renewal Survey for Canada is slightly less than the percentage reported in the United States (25%) and Australia (29%) based on the result of the same 2001 survey (*Ipsos-Reid, 2001*).

While not all producers indicated that they have a written business plan for their farm operation, many may have some components of a business plan or other type of plan in place. Some of the elements of a business plan or other type of plans used by the 2004 National Renewal Survey respondents included:

- a financial assessment (52%)
- a production plan (35%)
- an environmental plan (30%)
- a food safety and quality plan (21%)
- a succession plan (18%)
- a marketing plan (18%)

Few operators indicated that they used a risk assessment plan (11%) or a human resource plan (13%).

Although not many producers have a full food safety and quality plan, over half of Canadian producers reported having step-by-step procedures in place to enhance product safety (*Statistics Canada, 2003 Farm Financial Survey*).

In 2005, the Canadian Federation of Independent Business reported that only 7% of Canadian small and medium sized enterprise owners have a formal succession plan. However, the sooner one expects to exit the business, the more likely that he or she will have a succession plan (*CFIB, June 2005*).

The 2004 National Renewal Survey confirmed that most respondents kept financial records. The most common record kept was the balance sheet with 84% of respondents reporting they have one completed. This compares to 79% in the U.S., 85% in Canada and 86% in Australia in 2001 (*Ipsos-Reid, 2001*).

Other types of records kept by Canadian operators are:

- a written annual budget (48%), listing expected revenues and expenses for the farm;
- a break-even analysis (47%), which outlines the minimum revenues needed to cover expenses;
- a cash flow statement (44%), that tells producers when they can expect to get money and when they will spend it; and
- an enterprise budget, which separately calculates the revenues and expenses associated with the various products a farm business produces (40%).

Regionally, there is a higher percentage of producers in Quebec that have plans developed or kept financial records than in other provinces. Quebec government has been encouraging the development of producer management clubs for many years which may account for the higher use of plans and records.

### ***Benchmark Comparison***

A total of 52% of survey respondents reported using production benchmarking (comparing their farm's production performance with other farms of similar region, size and specialization). However, fewer farm operators compare the financial performance of their farm with that of other farms, with 34% of Canadian operators having reported using financial benchmarking. Larger farms were more likely to use benchmarking data of either sort.

### ***Innovation***

According to the 2004 National Renewal Survey, 60% of producers used a computer for business purposes and 53% of Canadian farm businesses were connected to the Internet. Regionally, Newfoundland and Labrador, and British Columbia have been taken the most advantage of this technology.

Producers use their computer for business purposes to keep financial records (75%), access marketing information (59%), keep production records (51%), do financial planning (43%), do cost of production analysis (38%), purchase inputs via the internet (18%) and market their products via the internet (14%) (*Statistics Canada, 2003 Farm Financial Survey*).

In terms of being connected to the Internet, producers use their connection for accessing marketing information (73%), production information (72%), or weather information (65%); for communicating with suppliers (49%) or with other producers (40%); for making farm related purchases (38%); for banking (37%); for selling farm products (23%); and for investing (23%) (*Ipsos-Reid, 2001*).

When asked about their level of innovation, 22% of the 2004 National Renewal Survey respondents stated that they were “among the first to try something new” when new products and techniques were introduced. A majority of producers said they wait until a few operators have tried the new products and techniques first (44%). About 76% of the producers who stated that they were among the first to try something new have less than \$50,000 in net farm income and are over 44 years old.

In the past five years, 65% of survey respondents reported undertaking some new business venture through expanding, diversifying, introducing value-added products, or starting a non-farm business. A total of 48% of producers reported that they had expanded their operations, 31% had diversified their operation, 11% had started a non-farm business, or introduced value-added products in their operation.

Canadian producers are exercising due diligence when it comes to making these changes to their operations. Before making any changes to their operations, survey respondents:

- did an assessment of the impact on net income (86%);
- analyzed the financial feasibility of the project (78%);
- identified a market for a new product (68%);
- consulted an accountant, lender, or other financial expert (61%);
- identified possible conflicts with their farm’s limited resources (56%);
- consulted an agrologist, input supplier, or other agricultural specialist (48%);
- consulted other farm operators (47%); and
- analyzed consumer trends (44%).

### ***Networking***

Two types of networks were covered in the 2004 National Renewal Survey: farm groups, where members come together to exchange ideas, and collaborative arrangements, where a group of producers make arrangements to reduce costs or increase revenue.

About 47% of Canadian operators actively participated in a producer association or a farm organization. Some operators actively participated in a mentoring or peer group (14%), or a management or marketing club (13%). About 31% of respondents stated that they had a collaborative agreement with other producers in sharing equipment. Other collaborative arrangements included group purchasing (14%) and group marketing (11%).

### ***Marketing***

In 2003, 6% Of Survey Respondents Directly Exported Products To Other Countries. Another 16% Of producers sold value-added products.

Statistics’ Canada reports that 8% of all small and medium enterprises had revenues from exports, representing about 33% of their total revenues generated (*Statistics Canada, Survey on financing of small and medium enterprises, 2004*).

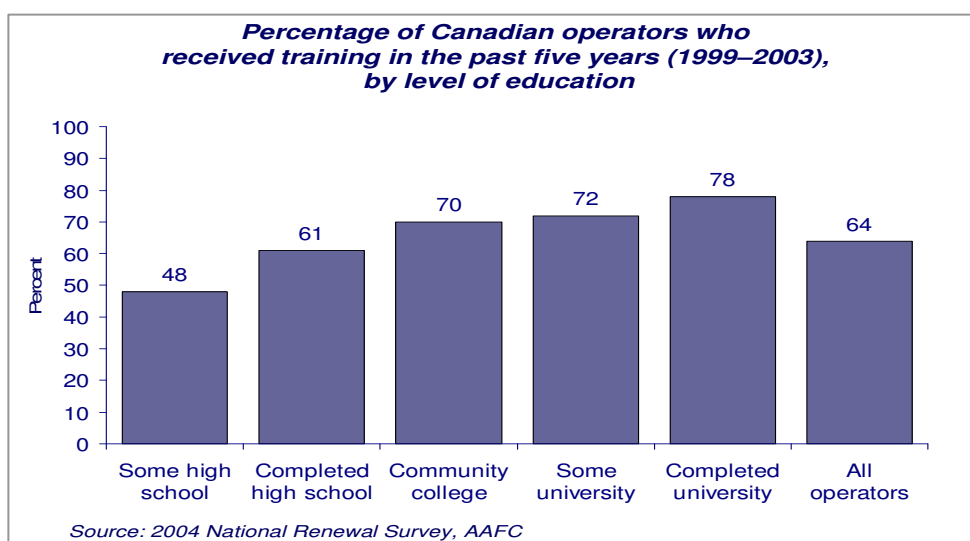
### ***Education And Training***

In 2003, 52% of survey respondents reported having completed some form of post-secondary education: 32% had attended community college, and the remaining 20% had attended university. This is similar to the general population aged between 25 and 64 (*Statistics Canada, 2001 Census of Agriculture*).

Ipsos-Reid reported in 2001 that Canadian producers were more likely to have technical or post secondary education (27%) than the producers in Australia (18%) and the U.S. (12%). However, producers in the United States (32%) were significantly more likely than producers in Canada (10%) or Australia (13%) to have a university degree (*Ipsos-Reid, 2001*).

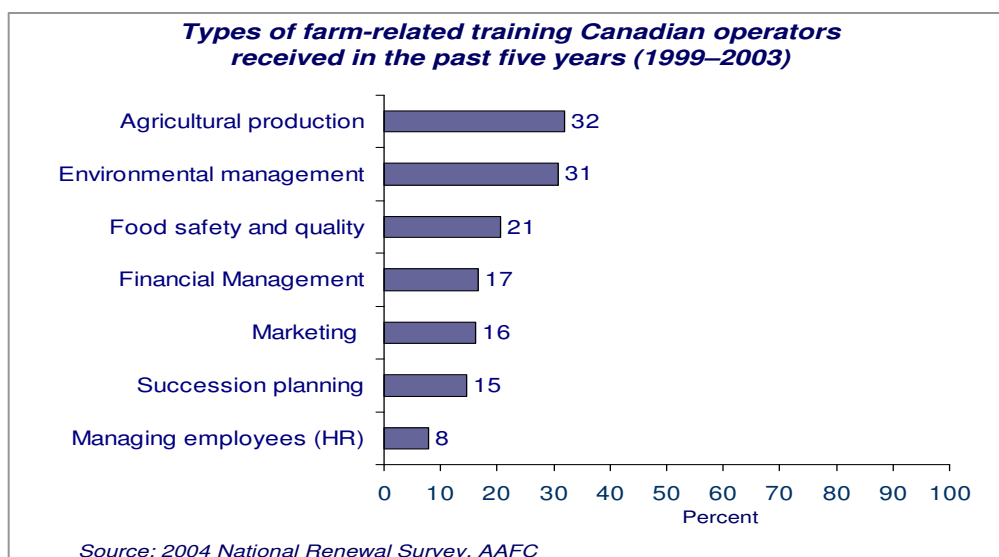
Of the two-thirds of respondents who reported taking training in the past five years, operators with university education were more likely to have done so. Operators with “some high school” education were less likely to have taken training (Figure 1).

**Figure 1: Percentage of Canadian operators who received training in the past five years (1999-2003) by level of education**



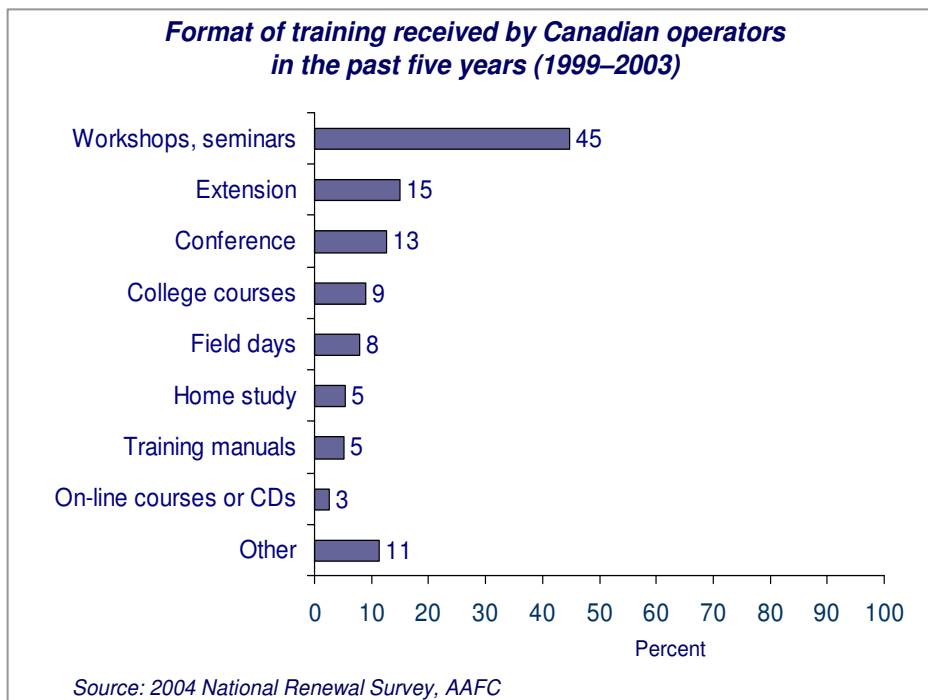
Farm-related training was chosen by 59% of Canadian farm operators, with the most popular course topics being agricultural production, environmental management, and food safety and quality training (Figure 2). Another 21% of Canadian operators took non-farm related training in the past five years.

**Figure 2: Types of farm-related training Canadian operators received in the past five years (1999-2003)**



As shown in Figure 3, the farm-related training method chosen by most producers was “workshops and seminars”, extension courses or short classroom courses following a distant second with 15% of respondents reporting this format of training.

**Figure 3: Format of training received by Canadian operators in the past five years (1999-2003)**



Over one-third of producers in Canada reported facing challenges taking training to improve skills. Lack of time, cost, length to travel, and lack of replacement labour were cited as major challenges (*Statistics Canada, 2003 Farm Financial Survey*).

### Demographics

According to the 2004 National Renewal Survey, the majority of farm businesses in Canada were sole proprietorships. In 2003, one half of farm businesses in Canada were sole proprietorships, one-quarter partnerships and one-fifth corporations. In comparison to businesses in general, Statistics' Canada reports that about 36% of small and medium businesses are sole proprietorships, 11% partnerships and 53% corporations (*Statistics Canada, Survey on Financing of Small and Medium-Sized Enterprises, 2002*).

In the 2004 National Renewal Survey, one-third of farms reported generating gross revenues of \$100,000 to \$249,999, while slightly over one quarter of farms received \$250,000 or more in gross revenues.

Two in five producers specialize in grain and oilseed production. One-third of producers specialize in the production of beef cattle, and one-tenth in dairy production.

Less than 5% of farm operators are younger than 35 years. The average age of farm operators in Canada is 52. In comparison, Statistics' Canada reports that 9% of the majority owner of small and medium-sized enterprises is under 35 years (*Statistics Canada, Survey on Financing of Small and Medium-Sized Enterprises, 2002*).

Almost half of farm operators operated a large farm (revenues of \$100,000 to \$499,999) and almost one-fifth operated either a small (revenues of \$10,000 to \$49,999) or very large farm (revenues of \$500,000 and over).

## **Conclusion**

Like farm business management practices themselves, federal, provincial and territorial governments supplied or sponsored products and services which must also adapt to changing circumstances and needs to remain effective. To that end, government needs performance indicators against which to measure the success of their programs and services. The 2004 National Renewal Survey provides such benchmark data. Governments in Canada are refining their programs to provide as many farmers as possible with the management tools that they need to increase profitability, to make choices about sources of income, and to meet market and consumer demands respecting not just type of product, but also food safety and the environment. The information provided from the 2004 National Renewal Survey provides policy-makers and program designers of farm management and skills training alike with the base for the measurement tools that they need to gauge the success of current programs in these areas and alter them as required.

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