



## Management strategies and attitudes that will prosper in the new world of agriculture

*J W Chudleigh*

*University of Sydney, Orange, NSW, 2800*

### Abstract

Certain characteristics of those managers successfully adapting to new management challenges brought by increased competitiveness and globalisation are emerging. Some of the key factors centre on the manager's ability to change rapidly and in line with market requirements. In addition the changes being unleashed on traditional world perceptions of business by the internet and its emerging "new economy" are challenging us all in anticipating the changes these developments will bring.

As the change in the structure of Australian agriculture's product mix continues and as world competitiveness increases, only those who can compete through structures, scale, management skills and technological and business innovation will remain as the key producers of our agricultural products. The recognition of the emerging market forces which are demanding greater food variety, consistency and safety is important to positioning an enterprise to ensure market requirements are met.

An emerging world trend in consciousness about the social value of good land use is now evident in the agricultural debate and this recognition will impact in future on all agricultural land use. It will be important for agriculturists to fully appreciate this trend and to join willingly in planning land use activities which clearly meet social goals and needs as well as personal aspirations.

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### Introduction

Australian and world agriculture is changing as the world demands an increasing variety of foods, increased food safety and increased environmental responsibility; as world competition is unleashed under the gradual globalisation of industries; and as the structures and scale of various commodity production units increases worldwide with technological advances and new capital investment.

This challenging change is testing many producers whose formerly profitable farming structures are no longer capable of competing in the newer globalised and more competitive environment. The world will not turn back from this change as it is helping ensure the provision of cheaper food and other goods to consumers and thus improving the standard of living of those in Western society generally.

These changes mean that the balance between lifestyle activities and farm management activities has changed permanently with many farm structures now unable to generate enough income to allow traditional lifestyles to persist. A total rethink of how we use our time, capital and management skills is needed.

### The changing agricultural scene

Globalisation is the term used to describe the operating environment in which we are working. The world is growing closer together in terms of trade since deregulation of



much of the Western World's financial system and the introduction of market forces to determine the flows of capital around the world.

The technological and information explosion of recent years has also created almost instant knowledge of market movements and forces and so production and marketing systems are being forced to become more and more efficient if they are to compete in world markets.

We need to accept that the world has the capacity to produce all the food it requires and more providing the price justifies the need. Many are concerned that the world would starve with 12 billion people but it is really a matter of ability to buy or produce and of distribution that determines where world food shortages occur. Most countries seek to be self sufficient overall in food production and so food traded on a world basis is generally supplying shortfalls in domestic consumption or products which cannot be produced for climatic, political or technical reasons.

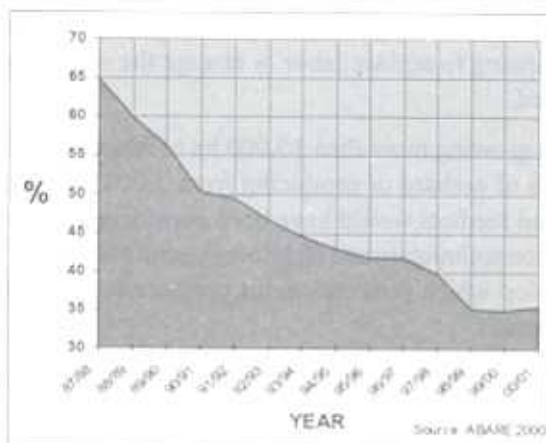
The trend that this fact produces is that world agricultural commodity prices will generally be at the lower end of prices paid to farmers throughout the world domestically, except in major non-subsidised exporting countries like Australia. If profits are to be made from exporting food or fibre products, the production systems must be the best in the world. As Australia exports almost 80% of its agricultural production, it is highly vulnerable to world price trends.

These price trends have been down in real terms for decades (ABARE,1999) as increases in productivity have allowed production to continue profitably in many areas of the world even at these lower prices. Increases in productivity are continuing and this is likely to keep pressure on prices, especially of basic commodities.

Apart from the pressure of competition on world prices, globalisation has also increased the opportunities for an expansion in the variety of foods which are being consumed in developed and developing countries. This increase in food variety has gradually changed the face of Australian agriculture from "riding on the sheep's back" to being a diversified agricultural producer with a spread of export industries making the security of our export performance more stable.

As figure 1 shows the % of our export income which is derived from the traditional wool, wheat and beef has fallen from its peak of 64.9% in 1988/89 to an expected 35% in 1999/2000. It is the newer industries including canola, wine, dairying, fish, horticulture and forest products which have provided the growth and the new opportunities for investors into agriculture. These industries have also provided the demand for increased numbers of well qualified employees by employers in and servicing these new industries.

As Australia's traditional industries lose their dominance of our export scene, globalisation is opening up new opportunities for perceptive and innovative producers who are able to consider changing their land use or expanding or intensifying their current enterprises. All producers need to fully understand the gradual changes that are behind what is the most significant restructuring of agricultural production worldwide for the last 50 years.



**Figure 1. Contribution of wool, wheat and beef to total agricultural exports (%)**

Despite the increasing competitiveness many producers of our traditional products are still profitable (Beare, 1999) and it is instructive to analyse why the top producers in any industry are able to compete on a world scale. There is no simple or single solution in most cases but there are a number of strategies which can be identified and which could be considered by each individual as to their appropriateness or feasibility in assisting in maintaining and even increasing profitability in any particular situation.

There are also distinct variations in the current prosperity of regions with wool and some beef areas having suffered significantly in recent years. For instance in the north and eastern wheatbelt of Western Australia, for the three years 1995/96 to 1997/98, 73% of producers averaged returns in the top 25% on a national level (Beare, 1999), a very profitable area of Australia. In contrast on the tablelands in NSW only 7% had returns in the top 25% on a national scale. Apart from management and structural factors good seasons and reasonable prices exert a significant influence at all times.

There are however, many strategies which can ensure the best chance of prospering during the variations in price and seasons. For discussion purposes I have categorised these strategies under three main headings. These are, structure and size, management attitudes and quality.

### **Structure and size**

#### **Scale**

While size of farm operation does not explain all the differences between profitable and non-profitable farm enterprises it is one of the key structural characteristics of success and thus farms worldwide are tending to become larger. Size in physical terms is not necessarily the key but it is in terms of the scale of the operation being undertaken. There is generally a scale of each production operation which leads to the most efficient and effective use of resources and to the least cost system of production.

The spreading of overheads, especially when expensive plant and equipment is involved, is a key element to the efficiency of scale. If the full utilisation of plant and other equipment can be achieved in other ways by sharing, syndication or other co-operative arrangements, then smaller units can relieve themselves of the need to





overcapitalise. Labour is becoming a less important part of the production process with technology continuing to replace labor or change the way labour should operate to be profitably utilised.

The concept of a farm growing more than 10,000 ha of wheat, 5,000 ha of cotton, 500 ha of vineyard, 500 ha of orchard or producing from 3,000 sow piggeries, 1000 cow dairies or 100,000 head feedlots would have been considered almost impossible only 20 years ago. Production techniques and technology now allow this "industrialisation" of agriculture to develop which puts enormous pressure on the traditional operating concept of a family farm.

Some strategies for increasing the scale of your operation could be buying or leasing of more land to expand livestock numbers or crop area, intensifying the use of current land by introducing an enterprise which can be efficient and utilise existing resources better, change the type of livestock or crop to a more involved enterprise such as a stud or a special horticultural crop (eg herb crop) or change part or all of the land use entirely from traditional enterprises to timber, tourism, mining, recreation or some manufacturing process.

Some lateral thinking about the resources at your disposal may help identify enterprises which will better utilise your resources and be more competitive in the market place.

#### **Diversification of economic base**

A conscious strategy of changing the economic base of your enterprise can be as simple as starting to fatten a few cattle each year to totally reorganising the use of labour and capital such as through new capital intensive enterprises which do not necessarily require added land but do require added investment (eg piggery, feedlot, timber, tourism, real estate investment, share trading etc).

I believe that the future will see a gradual emergence of a change in attitude to land use throughout the world with the social factor becoming more dominant in land use planning. Already in the EU the term "multifunctionality" is well entrenched in their agricultural language in recognition of the social dimension of land use and the need for environmental sustainability. The emergence of "carbon credits" and their impact on land use is evident. The multi-functional use of land will potentially open up even more diversification opportunities.

Where diversification is possible because there is excess labour available, surplus land or capital, low productivity land under current use or under-utilised machinery then full utilisation of those resources should be the aim of diversification. Diversification because the current enterprise mix is not working should not be the driving force unless there are resources that can be reallocated or surplus resources that could be better utilised elsewhere. Diversification is different from entirely changing enterprises in that under diversification the basic enterprises are generally maintained while introducing a broader range of activities into the overall enterprise.

Many successful rural business operators have gradually diversified their financial base to include real estate and a share portfolio. This may seem difficult to some without experience but it is in fact relatively easy providing it is well planned and actioned regularly and gradually over time. Building a share portfolio is probably one of the easiest ways to diversify your economic base.



### **Business structures**

Traditional land ownership in Australia as a normal practice for farmers is not necessarily the normal situation in other developed countries. While the increase in land values has been a major accumulator of wealth for many farm families, it does not always allow the best use of capital and labour when there are limited amounts of capital.

There is significant demand for land to lease and this could possibly be made available by encouraging long term investors such as superannuation funds to invest in land with a guarantee of good management, an adequate lease payment and environmentally sustainable practices. A type of partnership between a benign investor and a competent manager could lead to business structures which were far less dependent on land ownership and freed capital for increasing the efficiency of the production process.

A change in concept of the most appropriate business structures for the production of agricultural products which could compete in world markets could easily lead to the long term leasing of most land by an enterprise that had the funds to be world competitive and the scale to profit at current world prices.

There are other potential strategies for different business structures which might include outside equity investment in the land, machinery syndication, marketing co-operatives, enterprise pooling and allocated management systems, joint investment in new enterprises or even the formation of a management company to oversee several farms and thus release some owners for work elsewhere.

### **Labour efficiency**

Many farm units are highly overstaffed although the owner operators might feel fully occupied. It is sobering to realise that being busy is not necessarily being productive. Managers of the future must be able to separate the essential production activities from the "nice to do" more lifestyle or old production system oriented activities.

One example of a change of ownership of a farm considered by the original owner to be a full time job to manage proved to take the new owner only 95 man days per year to manage in a way which increased both productivity and profitability (Chudleigh, 1999). An analysis of what you do as a manager each day is essential to ensure your time is used productively at all times.

I do not see the utilisation of labour off-farm as is occurring in many areas as necessarily a problem but is often the result of a realisation that the previous time being spent on the farm full time was not fully productive and a management system needed to be developed to allow much better utilisation of the labour available. It is sobering to realise that this means that the time spent on "lifestyle" activities on many farms has not been necessary to ensure efficient production of the farm product.

Rather than selling the farm, some enterprises may be able to be managed by a neighbour while releasing the owner occupier to obtain full time work elsewhere. As work is not always available locally this may avoid splitting the family during a period of adjustment. Such a move may keep the investment in the farm and allow cheaper schooling or another business to be developed. Such a move would be defensive and





not really a means of adapting to the changing circumstances as a farmer.

### **Management attitudes**

The major common factor in most successful farming enterprises is, in fact, the combined attitudes, knowledge and skills of the manager or the management team in charge of the enterprise. While self analysis can be painful, the growing competitiveness of agricultural production forces us to make a realistic assessment of whether we have the right management approach to ensure we are amongst the top group of producers in our industry. We want to do more than just survive if we are to fulfill our ambitions in any enterprise and so the top managers generally have a self critical and inquiring nature which allows them to be receptive to all possibilities but realistic about the prospects of each of the alternatives available.

Some of the key characteristics of top producers include a good capacity to communicate ideas and engender enthusiasm amongst the farming team, a positive attitude which accepts the future is entirely in their hands and good communication skills with those involved in various ways with the business such as financiers, agents, buyers, suppliers and other producers.

Do you have the capacity to think outside your own frame of reference comfortably as to what might be if you are determined to create it?

### **Education**

It has been shown that those farm managers who are inclined to participate in further education or who have post school education have, on average, higher profit margins than those who are not continuing to learn in order to improve their management skills (Kilpatrick, 1996).

Coping with significant change often requires appropriate educational experiences to allow us to react positively to that change. While some management training techniques can be quite challenging to conservative thinkers, appropriate education can enhance your skills in creative and critical thinking, entrepreneurship, leadership, lateral thinking, risk assessment and self reflection as a learning technique.

Our attitudes are a product of our upbringing, our experiences and our education. Once we accept that we may even be one of the problems of our enterprise (a realisation that is not easy to accept) then we can set about doing something about changing our limitations or at least their effect on our business. There are many educational programs available to help in managing change and I believe we would all benefit from such programs.

### **Co-operation**

Co-operation is a key to solving some of the economies of scale problems which exist in the historical structure of much of Australia's agriculture. I am impressed by a group of about 11 small farmers in a southern state of Australia who individually in 1989 realised they needed to expand to survive but were landlocked and too small to comfortably increase their land areas.

They met to discuss their problem and collectively decided there would only be half of them present in 10 years if they took no action. Rather than accept the inevitable they collectively decided to combine their resources and purchase another enterprise



in another region which was big enough to employ a manager. They purchased a cattle station in central Queensland. In just over 20 years they now have 11 stations across Queensland and the Northern Territory, fully paid for and are collectively now entering the share market in a substantive way. They are now secure in their local region and also financially secure.

We will need to overcome the passion for independence in many cases if we are to capture the benefits which can flow from well planned co-operation. This will be difficult for many but may mean the difference between remaining in agriculture or not.

### **Planning**

Business planning has become even more essential to success in agriculture. Owning land and working hard is no longer a recipe for making a profit. Most successful enterprises have clear but realistic goals and a well developed program for achieving those goals.

Good planning with the help of an adviser or consultant will clarify whether you will be able to meet your expectations from your enterprise or not. Good business planning will highlight the need to change and will help to identify the prospects of the alternatives which may be available. In the extreme good planning will enable you to realistically assess your chances of success.

Benchmarking your performance against others will enable you to determine where improvements are needed and if those can be implemented in your case. It may be that your structure, location, scale of operation or resources are not capable of competitively surviving against the best and this realisation must come early and not before capital is exhausted in vain hope of success.

The most important aspect of planning is to be realistic and then to take serious note of what the process delivers. Too many producers are living in hope of a return to the "good old days" and in doing so are not realistically facing the need for significant change if they are to survive and thrive in the new era.

### **Quality**

World's best practice has become an entrenched expectation in most industries today as a result of the globalisation process. Quality is pervasive and must be evident in all we do if we are to be highly successful. There are three key areas in which quality must be paramount, in your production process, in your product and in your marketing systems.

### **Production processes**

The use of the best technology available for your circumstances is essential to enable your production process to produce at a minimum cost per unit. Obviously some areas have a climatic or natural advantage in production and gradually competition will force production in such cases to the areas best suited for that product. Are you certain your current enterprises are the best for the resources that you have in land, capital and management skills?

If your scale of production is too small to justify the equipment to use modern technology, try and seek alternative ways to ensure you have access to the best through



contracting, hiring, sharing or any other means. "I can't afford that" if it is the best practice is a negative approach and will handicap your capacity to compete.

As previously mentioned there is gradually developing in all society a greater consciousness about the environment and its long term welfare. Our production processes need to be oriented towards environmental sustainability. It is likely in the future that either rewards for such practices will evolve or penalties will be imposed for non sustainable practices. Opportunities are emerging to capture society's demand for environmental care and I believe primary producers should look for strategies to capture this concern for their benefit and not see it as another imposition on their freedom to farm.

### **Product quality**

The world is demanding greater food safety, greater consistency of product and a greater variety of products from which to choose. Food is now a lifestyle element in most developed countries and its supply is never questioned. Basic foods such as the grains will continue to form the basic diet of the poorer countries but the developed world is gradually changing its mix of food. This gradual change is slowly moving away from meats to more fruit and vegetables and other grain and dairy based products.

The provision of consistent supplies of a food product is one of the most challenging emerging trends. In horticulture the bulking of product, post harvest handling and processing are becoming highly technical in an effort to satisfy this demand. While there will be a market for all products the most profitable in the long run are likely to be from those that meet the quality needs of consumers.

Food safety is also a key factor in the quality concerns and is increasing in importance as instances of food contamination and disease become more widely highlighted. Production techniques that ensure safety are paramount to success and this will become even more important in the future. Australia has a relatively good record in this regard but must continue to concentrate on this issue if it is to keep its clean and green image. The world's cautious reaction to genetically modified foods is an indication of the concerns being felt for food safety and purity.

Rather than see this concern as another restriction on production the need for quality in all these aspects is gradually opening up new markets for guaranteed aspects of food such as organically grown, chemical free, non GMF products or being packaged in ways which are environmentally friendly.

### **Marketing**

Better marketing is often put forward as the panacea for generating better profits. This may be the case for some products but it is more important initially to recognise into which market arena you are selling your product.

The three market arenas are the commodity market, the branded product market and the contract market. Most production is for the commodity market such as with wheat, wool and beef but there is a growing quantity that is sold in the other two market arenas. It is important that producers understand into which market segment they are selling as that may change their approach to how they produce and sell.





In the commodity arena world prices generally set the basic price and improved profitability generally results from minimising the cost of production. Hedging or altering the time of sale can help in improving prices in this arena but commodity producers are significantly at the mercy of movements in world markets.

If selling under contract the terms and conditions need to be well understood and any specifications recognised, especially if there are rewards for certain elements such as oil content, moisture content or protein levels. Contract markets give greater certainty of price but also generally commit an obligation to deliver. Contracts with very specific obligations can be rewarding but be demanding on production systems and controls.

Many producers have introduced their own brand for their product. This is often a hard road as the competition is intense but if you have a specific product with a competitive advantage then this may be an alternative marketing arena for your product. Bottled water can be dearer to buy than bottled beer.

Markets will gradually change with technological advances. Many producers have already recognised the changing world scene in communication and are desperately trying to explain to governments that they recognise the enormous power that the new age of telecommunications is bringing to business. The impact of the internet is yet to be fully understood in marketing but its potential seems to be enormous in the long run and we need to keep developments in this area as providing strategies for better management and for greater diversification.

### **The new economy**

Many will have observed the amazing increase in value of many technology stocks on world markets and the terms "old economy" and "new economy". Old economy refers to the traditional established ways of doing business with production, processing and marketing chains established for most physical products. The new economy is based principally on the internet and is seen by many (Zuber, 1999) as driving a worldwide economic shift that will "... have a more profound impact on our lives than the Industrial Revolution."

The globalisation of business is now impossible to stop and boundaries between countries are destined to break down further as the "net" develops its power of connecting everyone with everyone. Intermediaries including governments who seek to control will find traditional systems will be challenged by this new connectedness.

Zuber claims that five key global trends are emerging. These are that

- voice communication will eventually be free through the internet
- businesses will be global, even the smallest can have a global presence
- markets will ignore national boundaries and the playing field will be more level
- education will change forever
- everything will be connected that has value in being connected such as phones, TV, pagers and Personal Computers

The significant venture capital that has flowed into this section of world markets in the last year supports Zuber's enthusiasm for the new economy. We must become



competent in understanding the potential of the emerging "new economy" to provide opportunities for all businesses no matter where situated or on what scale.

The emergence of this communication medium, once access is improved as is being demanded at present, will open up new opportunities for doing business no matter where you are situated in the world.

### **Conclusion**

There will continue to be a contraction in the number of farmers recorded in the statistics throughout the world. Those who remain as principally agricultural producers will have size and scale which is world competitive, management attitudes and skills enabling world's best practice to be obtained and will produce specifically to market specifications in quantities which are of interest to the marketing chain.

There will also be an increase in the number of smaller farmers who combine some agricultural production with other activities based on off farm work either physically or through the internet. This trend near population centres will continue to grow as the power of the internet allows more and more to operate effectively away from population centres and will bring a greater social dimension to land use practices and society's expectations from land stewards.

Although the past will never return the future is as exciting as ever and filled with new opportunities for those who are determined to remain in rural Australia.

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