



CURRENTS

Greg Mason

Creating a Viable Strategy for the FAMILY FARM

Farming is a complex business like any other, requiring both strategy and entrepreneurship to cultivate it. But there's more to strategy than diversification.

Most farmers are not entrepreneurs. But then, most business managers are not entrepreneurs either. Increasingly we read that businesses must manage change, take risks and develop a growth strategy. What special demands face the farm family in securing their future?

The 1996 November/December issue of *Harvard Business Review* ran two articles relevant to the issues of strategy and entrepreneurship. Incidentally, each issue of this publication has useful information for the smaller business. The first article, by Michael Porter, examines the idea of strategy and the second article, by Amar Bhidé, looks at entrepreneurship. The modern farm business needs both strategy and entrepreneurship.

Consider what is meant by strategy. Most businesses – and in this group I am including most farmers – do not really think about strategy. Usually, we are caught up with questions of operational effectiveness. How can I obtain the highest price for the product? Will changing chemicals give me greater weed control? Is it better to use a cheaper chemical, targeted at my main weed problem, or should I go for a broader spectrum at a higher price? When should I sell my hogs? These operational questions are critical to farm business planning but they are not strategy.

Operational efficiency means doing what everyone else is doing, but doing it better. In contrast, strategy, according to Porter, is being different. Strategy is

choosing to do different things than other businesses. Therefore, a farm business strategist identifies activities that others are not doing. In reality, few farmers do this, often failing to try anything that has not been proven successful. This is not surprising given the losses that can punish a farm family. Most farmers believe, with good reason, that sufficient risks exist in agriculture without tempting fate.

Some farmers are trying to change. One producer tries to diversify a grain operation into livestock. Another tries to create a processed product to capture value-added at the farm gate. Certainly this is what the experts advise. But there is more to strategy than diversification.

First, strategy requires trade-offs and choices. In theory, diversification is a sound management process but how realistic is it to move into livestock? Some businesses cast about trying all sorts of new activities in the hopes that one will be a winner. The usual outcome is that a company's resources are exhausted well before profits begin to flow. The successful strategy requires a careful choice to limit the areas of activity.

Second, the activities chosen by the farm entrepreneur must "fit." I recall one farm family where the two adults combined substitute teaching, working as a technician at a large equipment dealer, maintaining a 1,000-acre grain operation, market gardening, weaving, producing potter's clay, sustaining a 50-head herd, hatching eggs, supporting a new venture

into llamas and raising three children under nine. None of the activities fit and the two adults were quickly moving toward a mental meltdown.

Another farm operation I know has carefully planned its primary production in concert with its value-added activities. Specialty grains are grown, not for sale in raw form to grain companies, but as a step on a value chain that prepares, markets and distributes soup, bread and muffin mixes to health stores. The managers on this farm have carefully crafted an integrated strategy where each activity from growing to distribution is designed to work together to increase the revenues of the farm business.

Often, the search for diversification and value-added for farm businesses becomes frantic and is implemented as a last ditch measure to deal with financial losses.

Sound strategy is always implemented as a long-term vision and not as a reaction to an immediate financial crisis.

Finally, a key element to strategy is the entrepreneur who must dream up the innovations and take the risks to implement the plan. My next column will focus on entrepreneurship and how the farm family needs to examine its goals, resources and ability to take risks as it implements a strategy. ▀

Greg Mason, a Ph.D. in economics, is a managing partner of Prairie Research Associates in Winnipeg.