



CURRENTS

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RIDING THE WAVE

Easy and affordable access to information is altering the producer/supplier relationship. To succeed, farmers will have to embrace these changes.

The action is rising. Example – the hostile takeover bid for United Grain Growers is followed by the purchase of 45 per cent of the shares by ADM. Example – new announcements by grain companies to expand their operations throughout the Prairies such as Pioneer's planned 18,000-tonne facility near Brunkild, Manitoba. These are just the first moves in a process that will affect every farmer. To benefit from these changes, growers must understand what is happening. Each farm business person must develop a strategy to meet the challenges and a portfolio of tactics to meet day-to-day opportunities.

The same change that is transforming agriculture is sweeping the entire economy. Many have termed this the new era of globalization and argue that we all must face new realities of competition. It is also common to argue that the new economy has been shaped by international competitiveness, a new aggressive attitude by business, and governments that have got the deficit-cutting "religion."

Perhaps this is true, but such clichés miss the reasons for these shifts. A more fundamental change has been the fall in the cost of information. This has expanded the choices open to consumers, increased the challenges facing suppliers, and created increased profits for those who understand how to exploit the new economics of information.

Three aspects of the changed costs of information are transforming agriculture. First, more abundant market information allows consumers, producers and brokers to share a wider range of data. The consumer may check prices, availability of supply and other market facts with increasing convenience. Producers are releasing these data as a matter of competitive sur-

vival. As a small example, suppliers of chemicals or machinery place product and pricing data on the Internet. Few farmers get to this information using the Internet now. However, in a couple of years, on-line product data may surpass other forms of marketing. Business-to-business (supplier to grower) relationships will evolve rapidly and shift to more exotic electronic communications.

Secondly, the distribution chain is changing. The traditional farm intermediary, such as a chemical or an implement dealer, could find growers dealing directly with suppliers to cut costs. As a parallel example, car dealers are finding more consumers who are prepared to purchase without visiting the lot. Buyers can make the deal directly with the manufacturer over the Internet and the car delivered to the door. The "dealer" becomes a service centre representing the manufacturer's interest in maintaining a direct and continuing relationship with the consumer. Leasing is just the most recent example of how the relation between supplier and consumer has shifted. More than 40 per cent of all cars and trucks are now leased, and this does not include fleet-leasing by business and government!

Similar processes are bound to occur in agriculture. Farmers will enjoy the benefits of a direct relationship with the input and equipment suppliers because the communications costs are falling. Electronic and other forms of on-line communication will supplement and replace the company representative.

Finally, information is subject to economies of scale and increasing returns. Concentration of information at a single point reduces the costs of finding market intelligence and collecting production inputs. A single grain terminal of 18,000

tonnes is not merely a place where grain will be collected for shipment. It is bound to become a concentrated farm distribution point from which the whole range of agricultural services will be available. Not only will grain elevation services be affected, but they will affect every chemical dealer, machinery distributor and custom applicator. These announcements in the grain trade are intended to obtain profits from the widest range of farm activity.

The lessons for the farm family are clear. Economics of size are significant. The costs of obtaining key services such as trucking, custom chemical applications and management advice from off the farm will fall. The grower will be contracting more services from off-farm suppliers. The new model of farm service centres will offer these services centrally at lower prices and simplify the management problem for the farmer.

As the 1996 Census of Agriculture shows, the trend to increased farm size and diversification is well established. To manage increased size and range of production, farm managers will need to increase the skills available to their farm through outsourcing and changing old behaviour. Those who insist on the traditional values of self-reliance and doing every farm activity – admirable attributes in their own right – will face rising costs and lowered competitiveness. Quite simply, those unable to respond to these changes will likely find profit margins squeezed. The smart farmer will embrace these changes as important opportunities for business development. ▀

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