



Farm and Ranch Management
EconS 450

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Why farm or ranch?

- If you are interested in farming or ranching, take a moment and ask yourself why. That is – why would you want to be in that business?
- To look at it from a different perspective, when you are farming or ranching, what is your reason for being in business?



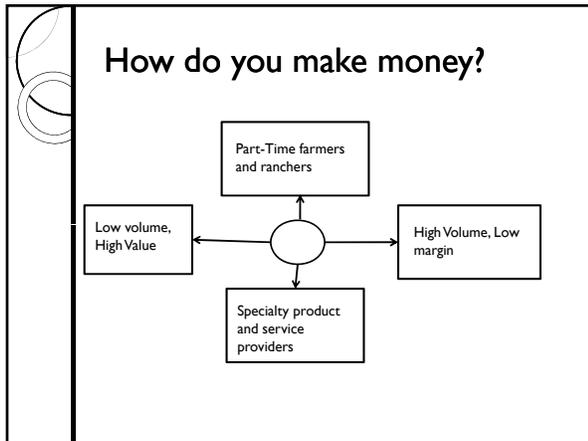
Why Study Management?

- What did you learn from EconS 350?
- What do you hope to learn from this class?
- How is the decision environment on today's farms and ranches different from when your parents or grandparents were managing the farm?

Current Trends in Agriculture

- Is the number of farms increasing or decreasing?

<http://www.usda.gov/nass/PUBS/TODAYRPT/fnlo0210.pdf>



Low-Volume, High-Value Producers

- Typically small-acreage growers
- For example:
 - <http://www.ballardcheese.com/>
- Promotion and marketing are critical to success, as is a high-quality or niche product.



High-Volume, Low Margin

- Large farms producing generic commodities such as grains, oil seeds, potatoes, milk.
- Costs are critical for these producers as profit margins tend to be thin.



Specialty Product or Service Providers

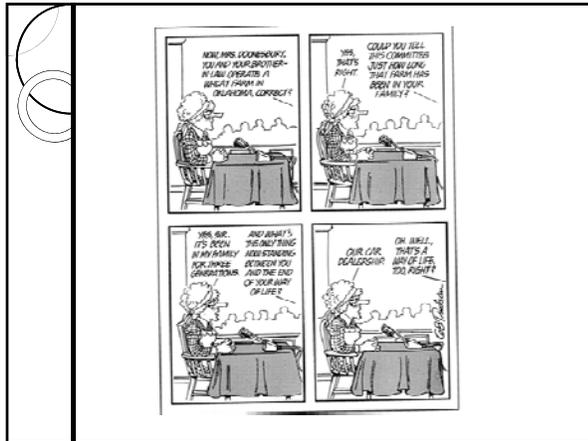
- A third strategy to make money in production agriculture is to specialize in just one or two skills and become one of the best at performing them.
 - Seed producers
 - Custom work or application
 - Agri-tourism
 - Other services

<http://www.wittmanconsulting.com/>



Part-Time Operators

- Part-time farmers and ranchers account for nearly one-half of all U.S. farms, but they produce less than 15% of the total agricultural sales.



The importance of good management

- Some managers achieve better results than others, even when producing in the same economic conditions, climate and general location:

Item	Highest Third	Lowest Third
Value of production	\$584,618	\$220,433
Net Farm Income	\$171,054	\$24,519
Return on Assets	13.9%	0.7%
Crop Acres Farmed	537	365

2005 Iowa Farm Costs and Returns

Management – Strategic and Tactical

- This class is mostly concerned with Tactical management – that is, the types of decisions that are made every year or production cycle
- Strategic management is also important. Strategic management consists of charting the overall long-term course of your business



Strategic Management

- Doing things right is not enough to ensure success in farming or ranching – you must also do the right things.
- Your farm will not live up to its potential if you utilize the same techniques as previous generations.



Strategic Management

- Define the Mission of the business
- Formulate Business goals
- Assess the resources of the business
- Survey the business environment
- Identify strategies that will reach your goals
- Implement and refine the selected strategies.



Mission Statement

- A mission statement is a short description of why the business exists.
- May include more than production agriculture.
- May reflect religious or cultural values.



Strategic Management

- How many farms have a mission statement?
- <http://larsenfarms.com/index.asp>



Goals

- The reasons for having goals are clear – unless you have a destination in mind, you have no way of evaluating your progress.
- Not all farm managers will have the same goals – the business organization may have a large impact.
- Goals may be closely related to values



Goals

- Must be written – this allows everyone involved to be informed and provides a record for review
- Must be specific – it's not enough to say something like “my goal is to purchase more land”.
- Must be measurable.
- Must have a timetable.



Goals?

- What goals do you have for your farm?



Assessing the Resources of the Business

- Includes the quantity and quality of physical, human and financial resources available to your business.
- Physical resources include:
 - Land base
 - Productivity
 - Topography
 - Breeding livestock
 - Buildings and fences
 - Machinery and equipment



Resources

- Human Resources
 - Your labor force
 - Quantity
 - Quality
 - Personal skill set
- Financial Resources
 - In agriculture, capital is often a limiting factor
 - You can't farm without having to borrow money.



Surveying the Business Environment

- Trends that impact your business
 - Technology
 - Economic
 - Consumer Tastes and Preferences
 - Government Policies
 - Weather patterns in other countries
 - Petroleum based inputs
 - Price trend and volatility



Economic Traits

- Market Size
 - Are you operating in a market where there is room for growth?
- Scope of competition
 - Is your competition local, regional, national?
- Market growth rate
 - In what stage of development is the market? Is it growing fast? declining?



Economic Traits

- Number of rivals and their relative size
 - Is your industry fragmented with many small firms, or dominated by a few large ones?
- Number of buyers and their relative size
 - The number of buyers for your products has a large impact on your ability to market your production.
 - More buyers = more competition = better prices to farmers



Economic Traits

- Prevalence of backward and forward integration
 - How integrated is your business compared to others producing the same outputs?
- Ease of entry and exit
 - High barriers protect positions and profits of existing firms.



Economic Traits

- Pace of Technical Change
 - How is technical change impacting the production and processing of your outputs?
 - What is the ability of your firm to invest in new technology?
- Level of differentiation (for you and your rivals)
 - Standardized products mean that buyers have more power



Economic Traits

- Prevalence of economies of scale
 - Will increasing the size of your firm lead to more efficient production?
- Capacity utilization
 - Being the low-cost producer demands high rates of capacity utilization
- Capital Requirements
 - What is your credit rating, what is the general environment for borrowing?



Strategic Management

A good strategic management process will:

- Stimulate thinking about the future
- Make you more aware of new opportunities and threatening developments
- Provide a clear statement of goals
- Help coordinate the numerous decisions made across the organization



Identifying and Selecting Strategies

- A disciplined strategic management process has many advantages over the results of decisions made on the basis of a freewheeling, gut-feeling, good deals, drifting along from season-to-season approach.
- A management approach focused on solving only short-term problems is a good way to go broke.



Crafting Strategy

- Some would refer to this step as “determining the business model”.
- How will the farm or ranch make a profit?



Product Development

- Identifying the specific physical and economic characteristics of the items that you will produce.
 - Class III milk
 - Hard red winter wheat
- The Identification of the outputs should include what consumers would be willing and able to pay (at least as an average over a planning horizon).



Do you need new ideas for products?

- Is Corn simply corn? Is #2 yellow corn different than high-oil corn?
- Can you develop new products that will allow you to capture a new, or larger segment of the market?



Idea generation

- Market pull “make what you can sell”
 - What do consumers want? Organic? Free range?
 - Keep in mind existing technology and processes may not be as important if you are considering new products.



Idea Generation

- Technology Push “sell what you can make”
 - New products are developed from current technology and existing equipment
 - Superior products have a natural advantage in the marketplace
 - May require a little vertical integration to capture value-added.
- <http://www.reedsdairy.com/>



Idea Generation

- Inter-functional
 - Many times the introduction of a new product requires cooperation between the different functions of the business, marketing, operations, engineering and finance.
- <http://www.wadafarms.com/>



Product Selection

- Once ideas have been identified, you can begin to select those which you feel will be to the best advantage of your firm.
- Three important criteria
 - Market potential
 - Financial feasibility
 - Operational compatibility



Preliminary product design

- Should consider both the product and the process by which it will be generated
- Consider trade-offs between cost, quality, delivery and flexibility (not to mention perishability).
- This step should result in a product that is competitive in the market and producible by the farm



Testing

- Does the new product work or serve as planned?
- Can the design of the facilities and/or process produce the product at a profitable cost?
- Is the quality consistent with consumers' wants/needs?



So what does all this mean?

- Strategic management is a continual process.
- The plan should be evaluated on a continuing basis.
- The main thing is – go through the process, especially if you are considering new ventures

Example – You want to become an organic producer

Item	Action
Title of project	Organic Certification and marketing
Reason/Motivation	Estimated budgets show better profits
Plan of action	Educate, start production, negotiate markets
Measurable objectives	Attend training, join association, finalize budgets and production practices, develop contracts

Example – You want to become an organic producer

Item	Action
Target Dates	Classes/training, winter year 1 Finalize plans and budget December year 1 Solidify market contracts January year 2 Produce and control years 2, 3, and 4 Attend association meetings, all years Become certified in year 4 Market Organic Products year 4
Budget and resources needed	\$5,000 for 4 years of training and relating expenses, 600 hours additional planning
