
New Ways of Thinking About Your Farm Business

Agriculture in the United States is in a state of constant change. The farming portion of the food supply chain has expanded from a system of producing broadly defined commodities to also including a system of producing products with specific attributes. The links of the commodity chain were connected by a series of open markets. The links of the emerging chain will be linked by contracts, joint ventures, or direct ownership. This change is driven by many factors. Two of the major factors are biotechnology and an increasingly discriminating consumer.

Agriculture is in the energy industry. Continuing into the future, farmers will be faced with producing crops that are specifically designed for energy production. How farmers respond to the opportunities and challenges of energy agriculture will influence the success of their farm businesses.

Those who adapt to these changes will have an advantage over traditional farmers. Below are ways that we have traditionally thought about the farm business. Accompanying each traditional paradigm is a new paradigm to help you adapt to a new agriculture.

Business Focus

- **Past - Produce food commodities.** In the past, agricultural commodities were primarily used in the food industry.
- **Future - Produce food and energy commodities.** In the future, we will continue to produce agricultural commodities for the energy market. Producing for both food and fuel will greatly increase the volatility of agricultural markets and the factors that affect these markets.
- **Past - Produce food commodities.** In the past, we produced corn, soybeans, hogs and cattle for broad commodity markets where every unit of production (bushel of corn) was assumed to be the same.
- **Future - Produce food products to specification.** In the future, we will produce agricultural products that have specific attributes. Products that do not meet specification may not have a market.
- **Past - Sell what we produce.** In the past, we produced a commodity and then tried to figure out how to sell it.
- **Future - Produce what we can sell.** In the future, we will determine what we can sell and then we will focus on producing the product for the market.
- **Past - How to produce.** Because we have traditionally produced main-line commodities, the decision of “what to produce” was easy. So we focused our attention on “how to produce”.
- **Future - What to produce.** As the broad commodity markets divide into many segmented (specific attribute) markets and we produce for both the food and energy markets, the decision of “what to produce” will become as important as “how to produce”.

Business Organization

- **Past - One-man operation.** In the past, we expanded our business until our labor and management were fully employed in the business. At this point, we stopped expanding.
- **Future - Team of employees, consultants, and specialists.** In the future, we will continue to expand our business by hiring others to help us with labor and management. As a result, developing the human relations skills of working with others will become more important.
- **Past - Independent producer.** Traditionally, we considered ourselves to be independent of others because we did all of the farm operations ourselves.
- **Future - CEO of a business.** The farm business of the future is much more complex. Much of our time will be focused on working with specialists and managing labor. So, we will need to look on ourselves as being the CEO of our business.
- **Past - Independent producer.** In the past, we worked by ourselves to produce commodities for the open market.
- **Future - Interdependent producer.** In the future, we will work with other producers to produce specific attribute products for an integrated supply system.
- **Past - Manage assets.** Because commodity production involved large amounts of capital, it was important to spend a substantial amount of our time managing these capital assets.

- **Future - Manage information.** As we move towards producing specific attribute products, the management of information will replace the management of assets as the most important resource to manage.
- **Past - Leverage money.** Because capital was so important in commodity production, we found ways of leveraging our money by borrowing money or leasing assets.
- **Future - Leverage information.** Leveraging money will continue to be important in the future. However, due to the importance of information, leveraging information will also be important.
- **Past - Horizontal growth strategies (capacity expansion).** In the past, we expanded our business by farming more acres or raising more livestock.
- **Future - Vertical growth strategies (vertical integration).** In the future, we will also be able to expand our business vertically by owning or controlling a portion of the food and energy supply chain.
- **Past - Maximize gross production.** Because every bushel of corn was considered to be the same (commodity), the maximum income could be achieved by focusing on maximizing production (yield per acre).
- **Future - Maximize specific attribute.** As some of the broad commodity markets break up into specific attribute markets, we will generate the most income by maximizing the amount of the specific attribute of the crop (protein per acre).

Markets

- **Past - Relatively stable demand.** The food industry is a mature market that varies little from year to year. Volatility in price was mainly due to variations in supply.
- **Future - Volatile demand.** With the emergence of energy agriculture, demand for agricultural products and commodities will become more

volatile as the energy sector searches for ways to meet the increasing demand for energy while also responding to environmental and energy independence demands. So prices will also become more volatile.

- **Past - Price taker.** In the past, we took whatever price the market gave us because we produced generic commodities.
- **Future - Price maker.** By producing products with unique characteristics, we will begin to have influence over the price we receive for our products.
- **Past - Buy retail and sell wholesale.** Traditionally, we have purchased our production inputs from local input suppliers where we also received substantial services (buy retail) and sold our commodities on the open market where we provided no services to the buyer (sell wholesale).
- **Future - Buy wholesale and sell retail.** In the future, we will buy inputs directly from input producers (buy wholesale) and sell our specific attribute products to end-users where we also provide a range of services (sell retail).
- **Past - Compete with suppliers and buyers.** In the past, we competed mostly on price with the input suppliers and the buyers of our commodities.
- **Future - Partner with suppliers and buyers.** In the future, we will look upon input suppliers and buyers as potential partners in the development of a supply chain.

We need to continue evolving our perceptions and paradigms of the way we manage our farm business. These changes will be critical to our future success.

Additional Information

Visit the [Ag Decision Maker website](http://www.extension.iastate.edu/agdm/wdothier.html#Strategic) for additional resources on strategic planning, www.extension.iastate.edu/agdm/wdothier.html#Strategic.

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