

Producer seek variety of strategies for growth potential, risk management

By JAY AKRIDGE and ALLAN GRAY

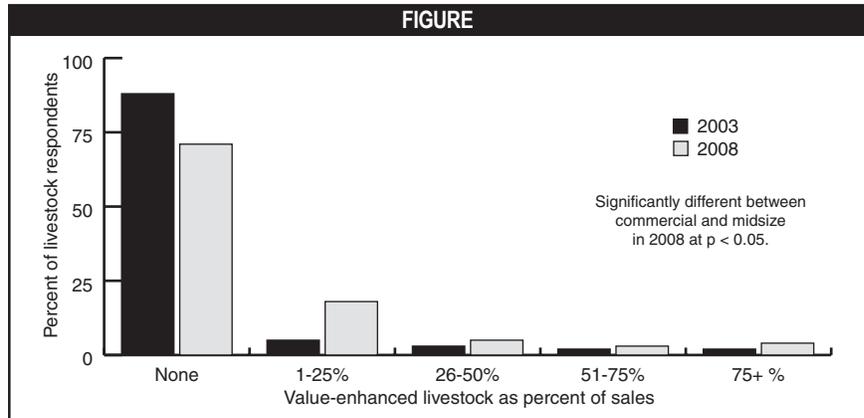
Large commercial producers pursue a variety of options for achieving their growth goals, including production of value-enhanced crops and livestock and contract production.

To help agribusinesses gauge their own understanding of producers' use of these alternatives for growing their businesses, Purdue University's Center for Food & Agricultural Business conducts a comprehensive survey of commercial agricultural producers every five years. In spring 2003, approximately 2,300 mid-size and commercial crop and livestock producers from across the U.S. completed a questionnaire exploring how their farm business is changing and what their needs are from agricultural input suppliers. As part of the series of key findings from the survey, this article looks at producer's attitudes toward and participation in contract and value-enhanced production.

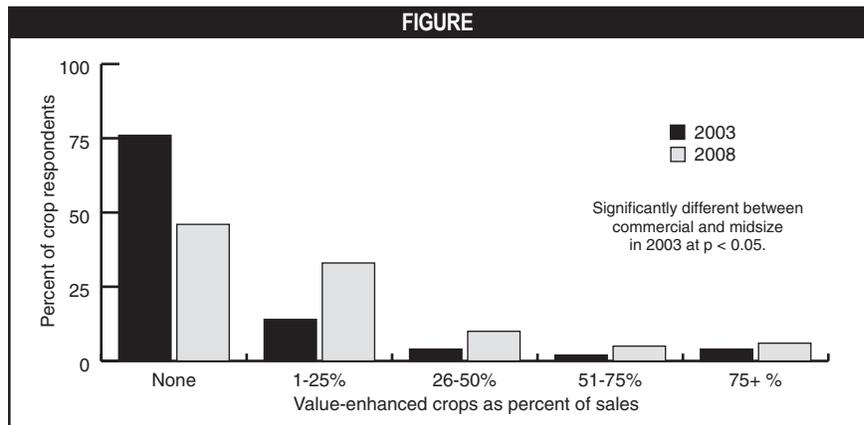
Value-enhanced production

In the survey, producers were asked about their activities in the production of value-enhanced products such as tofu soybeans, organic beef, etc. Currently, value-enhanced production is relatively modest for both crop and livestock producers. Relative to crop producers, fewer livestock producers currently participate or expect value-enhanced production (hormone-free beef, organic milk, etc.) to become a major part of their farming operation in the future. In 2003, 12% of commercial livestock

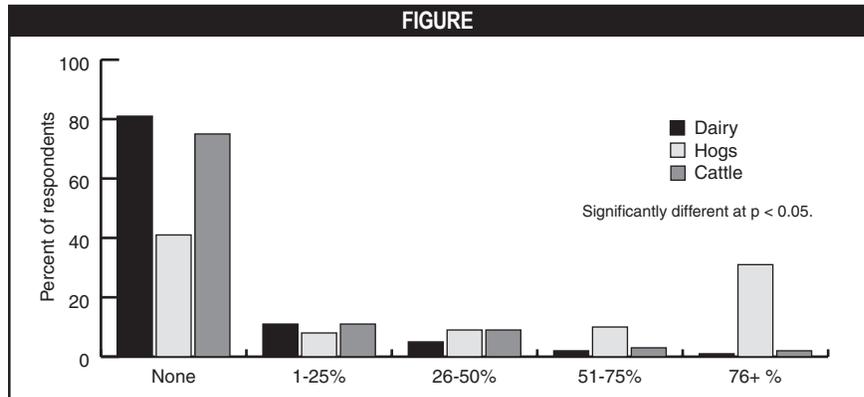
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1. Gross farm sales from value-enhanced livestock for commercial producers.



2. Gross farm sales from value-enhanced crops for commercial producers.



3. Percent currently produced under contract by primary operation.

producers reported some sales of value-enhanced livestock (Figure 1, p. 20). By 2008, 29% expected to be producing some value-enhanced livestock on their

farms. However, most of this group (62%) expects sales from value-enhanced livestock to represent less than 25% of their total livestock enterprise

sales.

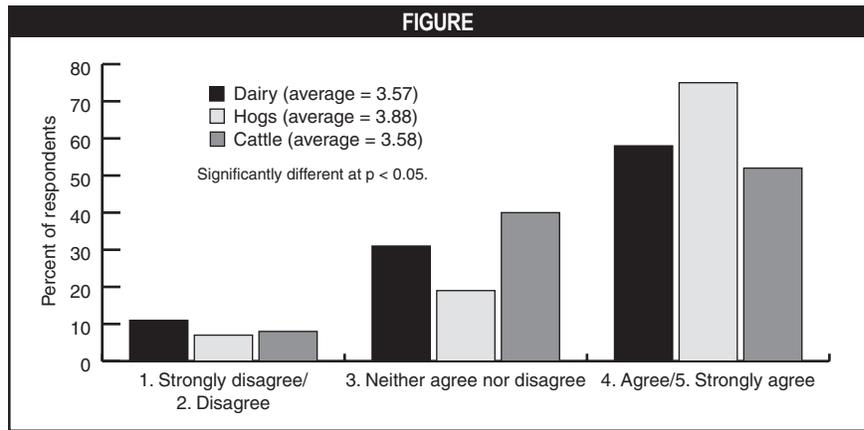
Crop producers anticipate value-enhanced production to increase but believe it will not become the dominant production activity in their business by 2008 (Figure 2, p. 20). Larger producers are more involved with value-enhanced crop production than smaller producers, and corn/soybean producers currently have and expect in the future to have more value-enhanced production compared to wheat/barley/canola and cotton producers.

Contract production

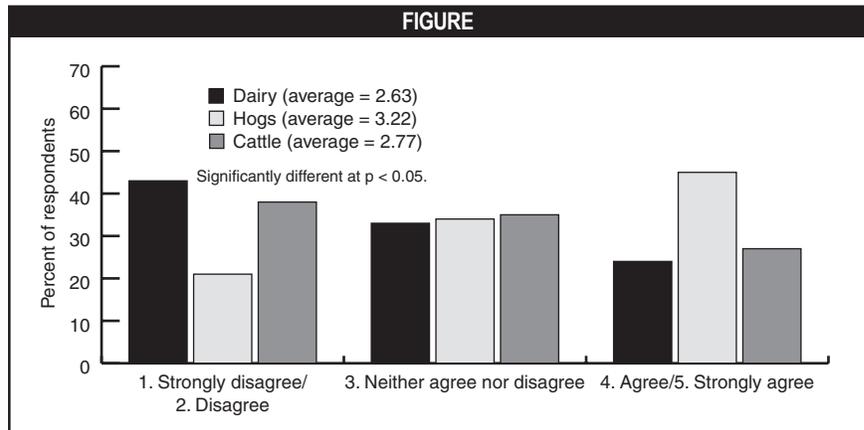
Commercial producers are more frequent users of contracts, where the buyer specifies at least one input as a means to reduce their risk and manage growth compared to mid-size producers. Sixty percent of commercial producers expect to see contract production grow over the next five years. However, when asked to indicate whether they personally expect to produce more under contract in the next five years, survey respondents expressed less personal commitment. In fact, less than one-third of commercial producers agreed or strongly agreed that they anticipated producing more products under contract in the future. Larger scale producers were more inclined to agree that they will be involved in more contract production in their own operations. This difference suggests that larger producers may see contracting as a way to leverage their growth potential while protecting their loss exposure.

In 2003, 59% of hog producers surveyed produced a portion of their hogs under a contract while only 19% of dairy and 25% of cattle producers produced under contract (Figure 3). Not surprisingly, 75% of hog producers believe more contract production will occur in the future while only 58% of dairy and 52% of cattle producers see contract production rising in the future for their products (Figure 4). Even more telling is that only 20-25% of dairy and cattle producers plan to increase their own contract production in the next five years while 46% of hog producers plan to increase their contract production (Figure 5).

Traditional crop producers have only a modest amount of production under contract. Sixty-five percent of crop producers have not contracted production, while 90% of those that do only have



4. In the future, more agricultural products will be produced to specification under contracts with buyers by primary operation.



5. In five years, I anticipate producing more products under contract by primary operation.

25% of their acreage or less under contract. Contract production is more common for corn/soybean and wheat/barley/canola producers than cotton producers. As to their expectations of the future, 55-60% of crop producers agree or strongly agree that more agricultural products will be produced under contract. However, only 34% of corn/soybean producers intend to increase contract production in the next five years compared to 47% of wheat/barley/canola producers.

Upshot

Producers seek a variety of strategies to enhance growth potential and manage risks, including traditional contracts and value-enhanced production. Agribusinesses with a solid understanding of producers' risk profiles and strategies for managing growth may find attractive opportunities to broaden product offerings and deepen relationships. Results of the survey indicate that pro-

ducers are willing to experiment with value-enhanced production. However, commercial producers also tend to be early adopters of new technology. Producers' curiosity in value-enhanced production may present agribusinesses with an opportunity to provide value-enhanced production opportunities that create value for both parties.

Interestingly, producers also appear cautious about adopting more contract production. At the same time, though, they have strong expectations about the future of contract markets. This result indicates that producers are searching for contracts that not only provide opportunities for good returns but also allow them to manage their risk. Thus, contracts that meet these producers' needs may be adopted quickly. Agribusinesses want to recognize the implications of these contracts and be sure that they are not left out of the decision process for production inputs under these contracts.