Issues

The Changing Face of Agriculture

Purdue researchers offer strategies for dealing with uncertain times

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The agricultural industry continues to undergo many changes along the supply chain, from the producer to the end user. These changes include vertical coordination and consolidation, improved technology, and a general change in the traditional business model. To be prepared for these changes and faced with additional pressure to reduce cost in distribution, 29 retail and marketing executives from across the world participated in Purdue University's Center for Food and Agricultural Business Retail/Marketing Executive Forum.

Four key ideas were developed and discussed further throughout the forum, which included domestic and foreign agricultural policy, consolidation and vertical coordination, attracting and retaining good employees, and that agricultural retailers control their future.

Ag Policy: Domestic and Foreign

The Retail/Marketing Executive Forum began with the discussion of domestic and foreign agricultural policy. Dr. Allan Gray, assistant professor in the Purdue University Department of Agriculture Economics noted that the new Farm Bill would help farmers maintain their cash flows over the next couple of years, but would not be a source of additional new cash. The 2002 Farm Bill maintains the payments received throughout the life of the 1996 Farm Bill and guarantees the emergency payments received by many producers in 1997-2001.

Falwell

Dr. Wally Tyner, professor in the Purdue University Department of Agriculture Economics, noted that the 2002 Farm Bill would definitely impact international trade because of the likelihood that the Farm Bill breaches World Trade Organization (WTO) trade distortion limits. Gray and Tyner suggested that competitors of the United States would continue to expand, but would struggle to compete with U.S. producers because of the subsidies available to U.S. producers.

Consolidation and Vertical Coordination

Despite the 2002 Farm Bill and politics, the agriculture industry continues to change at a breakneck pace. Consolidation and vertical coordination are major trends that dealers must anticipate and prepare for. Dr. Mike Boehlje, professor in the Purdue University Department of Agriculture Economics, suggested that there are four possible drivers for the rapid consolidation and coordination of the agricultural industry. These include: 1) efficiency gains, 2) risk management, 3) traceability, and 4) response to consumer needs and trends.

Dr. Boehlje also introduced the idea of "Wal-Marting" agriculture, which is where all players in the value chain (input manufacturer, input retailer, producer, processor, and food retailer) are linked to improve efficiency and overall performance of the entire system. The supplier is informed when a product is needed, rather than having the retailer (Wal-Mart) keep a large amount of unnecessary inventory. The reduction of excess inventory lowers cost and improves the services available to the customer.

The forum participants noted that the "Wal-Marting" of agriculture will be difficult to achieve as farmers and dealers are forced to alter the traditional methods of business. Improved information sharing will be necessary for all involved to succeed. However, the trust along the entire chain will need to be assessed.

The development of food system value chains is also expected to dramatically impact the traditional relationships that exist between salespeople and their customers throughout the agricultural sector. Rather than depending primarily on personal relationships to gain and keep business, the new system is increasingly based on business-to-business issues where the relationships are based more on economics and technical value.

Another potential driver of consolidation and integration is responsiveness to consumer trends. As businesses continue to consolidate and integrate, the need for additional services that set the retailer apart become more important. These services include anything that improves the customer's efficiency and subsequently the customer's bottom line.

Employees Make the Business

Employees are the backbone of the company, but how does an executive or manager attract and retain good employees? According to the president of the food processing company, the first way to attract and retain good employees is to empower them. Retailers need to allow employees to make decisions on their own and become an even greater part of the value chain.

The group agreed that an employee that feels that he/she has a stake in the success of the company will go the extra

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mile to service and satisfy customers. The food processor president also said that executives should share company information including financial position and overall performance with their employees.

Retailers Control Their Future

The president of an agricultural inputs manufacturer suggested that much of a retailer's success will be a result of their ability to provide valued service to their farmer customers and also for the manufacturer. However, if retailers do not provide the services the customer desires, manufacturers will be forced to go direct or find another means to provide the service. Producers will determine if the service is worth the additional costs.

John Newland, CEO of Farmlands (a large farm input cooperative in New Zealand), suggested that retailers have become distributors and are still expected to provide many or more of the services that they offered earlier. He noted that helping customers depends on good communication with their supplier. Farmlands has implemented an annual "Best Supplier Award," for their highest rated supplier from a combination of all Farmlands' branches across New Zealand. The "Best Supplier" is then recognized accordingly.

In conclusion, retailers will be continually challenged to seek out services that their customers need and are willing to pay for. By being aware of the tight dealer/customer relationship, retailers can become invaluable resources to their customers and provide something more than just product.