

Moving Up the Value-Chain: The Best Practice of Leading Farmers

By Al Scholz

Introduction:

I am optimistic about the growth opportunities across this great province. There are some very good indicators to demonstrate why we should be optimistic about Saskatchewan and why we should prepare to move quickly. The indicators are evident in the leading farmers across the province. These are the top one percent of our producers. They have already made many of the adjustments we are all struggling with and we can learn from their experience.

We hear how the world is changing at an ever increasing rate. We are told there are both challenges, and opportunities with change. We are told to “manage change”, but how can this be done without increasing risk? Consumers increasingly impact how we farm. Is this good or bad?

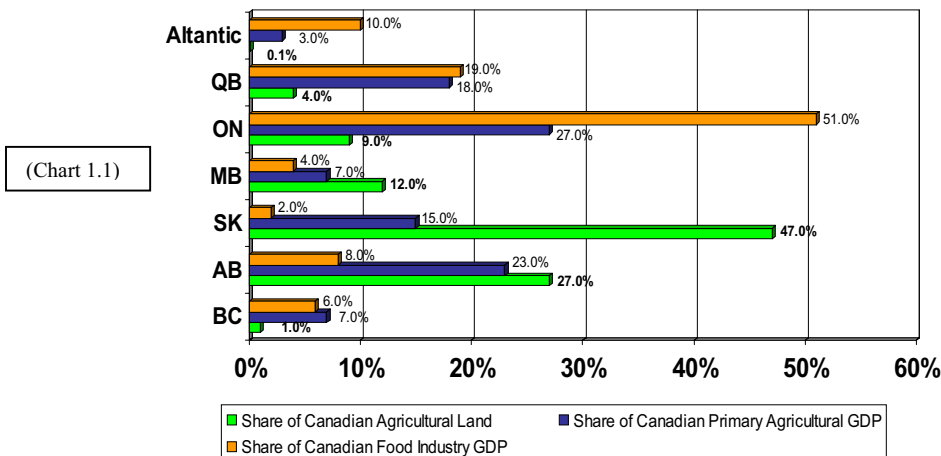
*The pessimist sees **difficulty** in every opportunity.
The optimist sees the **opportunity** in every difficulty.*
Winston Churchill

There are difficulties and the opportunities for farmers as they move up the value chain. It is happening across Canada and is starting to happen in Saskatchewan. Let me explain the trends in value-add in terms of 1) where we are today; 2) where we are going in the next ten years; and 3) how we will get there.

Where We Are Today?

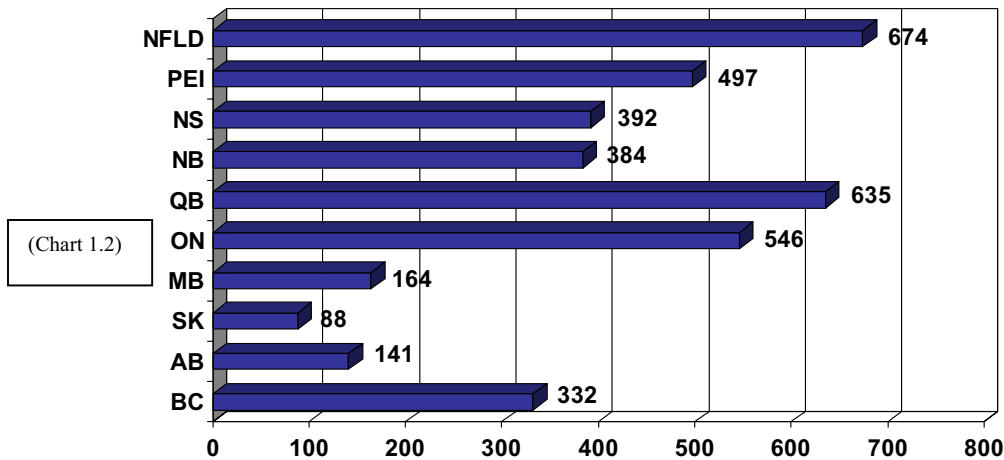
Saskatchewan needs more value-add from our land base. We have 47% of Canada’s agriculture land, but only 15% of the gross farm revenue and only 2% of the nation’s food and beverage industry. Look at the “Maximizing Value-Add from the Land Base“ (Chart 1.1) to see how we compare to our sister provinces.

Maximizing Value-Add From the Land Base



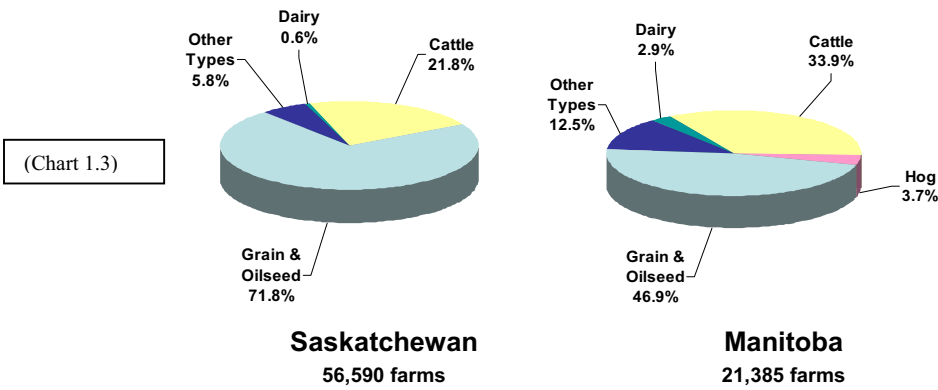
If we were able to achieve the level of value-added processing that currently exists in Manitoba and Alberta, we would double our gross per acre income, reduce our reliance on the global commodity markets and perhaps even increase the number of farmers because farm size would decline. As seen in Chart 1.2, Saskatchewan's average gross revenue per acre is currently about \$90, the lowest in Canada. Manitoba and Alberta are almost double. Why?

Canadian Farm Income
Gross Revenue per Acre (Year 2000)
We Must Maximize Income per Acre

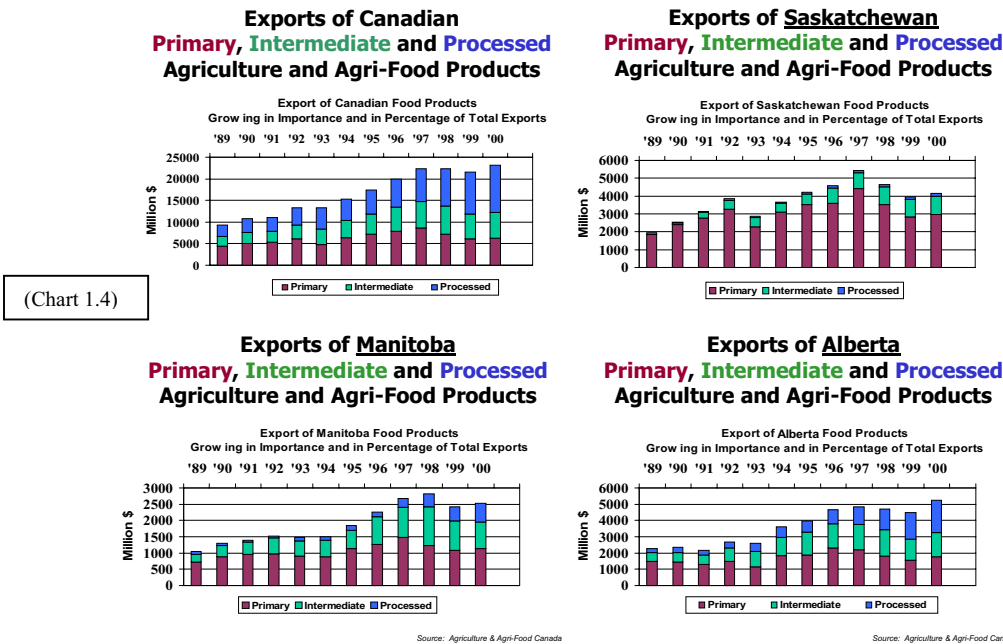


One major reason why Saskatchewan's average gross revenue per acre is low, is because of the over-reliance on the grains industry and the resistance to moving to more value-add. In every other jurisdiction in North America, farmers derive 50% or more of farm gate revenue from livestock. Saskatchewan is the anomaly. We must double our livestock production across the province, just to catch up (Chart 1.3).

Distribution of Farm Types by Province, 1999



Because of our huge land base, Saskatchewan will always be dependent on the export market. But the future is not the export of commodities. It is in the export of value-add.



The “Export of Primary, Intermediate and Processed Agri-Food Products” charts show the trend towards more value-add across Canada and in the prairie region, except for Saskatchewan. The bottom part is commodities, the middle is intermediate processing, such as the cleaning and bagging of pulses, and the top is value-added food exports.

This is why I am so optimistic. Saskatchewan has been just behind the wave of change into the value-add industry, while our sister provinces are getting “in front” of the wave. Saskatchewan may be slightly behind, but we are starting to make a move.

Where Are We Going?

So where are we going? The road map to the future can be found through some of the best practices of leading farmers. Many of them have already figured out the consumer trends and have been able to get in front of the wave. This requires the so-called “thinking outside of the box”. Here are a few examples of what some leading farmers in Saskatchewan are doing to move of the value-chain

David & Vicky Krause, Pulse Wise Foods, Shaunavon, Saskatchewan

David and Vicky produce lentil based food products starting with pre-cooked, vegetarian lasagna, which is marketed locally and in the Saskatoon Co-op chains. They pursued a value-added consumer product as a means to add value to the crops they produce, enhance their returns from the land and remain on the land as full-time farmers.

The Krause’s grew up on farms in the Shaunavon area. They have post-secondary training and have worked in industry for a short period before returning to the farm. They own a half-section of land and manage a 2,000 acre farm on a contract basis. They are determined to make the farm work for them.

David and Vicky were not shy about looking and asking for help. They pursued all the marketing and processing expertise they could from the Saskatchewan Food Processors Association and the Saskatchewan Food Development Centre. They knew early in the process that their venture would take 3-4 years of hard work and investment before the business would generate significant net revenue for their farm operation.

They started with an intensive review of consumer trends in order to find a product that was on the front end of the wave and would sustain growth. They ended up focusing on vegetarian lasagna that addressed consumer needs for a healthy, nutritious product that was easy to prepare. They have obtained the illusive (and often very expensive) retail shelf-space through strategic alliances and are aggressively supporting their product in these retail stores through in-store demonstrations and other promotions.

The Krause’s have had good success in 18 months through a market driven approach and the relentless pursuit of expanding their network of experts and mentors. They are ahead of their business plan projections and are very optimistic about the future.

Kevin and Melanie Boldt, Pine View Farms, Osler, Saskatchewan

The Boldts operate a retail food store from their farm, about 45 km north of Saskatoon, which features “naturally produced” chicken, pork, beef, lamb, wild boar, bison and a range of value-add meat products. The retail store hours are available on their website.

Kevin Boldt grew up on a dairy farm in the Osler area, while Melanie was raised in the city. They both have University degrees and professional work experience in the agriculture industry, but their dream was to own and operate a farm. They have two pre-school age children and both work full-time on their intensive “value-add” farm operations.

In 1998 they started full-time farming and realized the need to further diversify or expand their existing 2,000 acre grain and cattle operation. What started as a search for more land ended with the purchase of a nearby farmyard equipped with a small poultry abattoir and barns. They saw a market opportunity.

Poultry processing began as a sideline to grain farming, but quickly became a mainline for Kevin and Melanie. The Boldt's knew there was a growing consumer trend for "quality" meat products produced in a "natural" way. They did their market and consumer research and developed their own "all natural protocol". Their initial market approach was as a conventional, wholesale supplier with health food stores, select butcher shops, restaurants and Co-op Food Stores. They quickly discovered a rapidly growing market for "experience shopping", which is urban consumers buying on site, directly from the farmer. Today, 70% of their total sales are from the on-farm retail store and the business is growing.

The Boldt's attribute their business success to the broad range of "win-win" horizontal and vertical alliances with other farmers and people in the food business. They produce and market over 20,000 chickens and contract their pork, bison, and lamb production with other farmers who follow the "all natural protocols." The business takes all their time, so Kevin contracts all his crop production to neighbouring farmers. They employ 15 part-time staff on their farm. They are very excited about the future of farming for themselves and their children.

Peter and Shirley Voldeng, Fairway Farms, Naicam, Saskatchewan

Peter and Shirley Voldeng operate a hog operation and are Saskatchewan's 2002 recipients of the Outstanding Young Farmers award. One of the reasons they were selected for this prestigious award is their innovative approach to value-chain marketing.

The Voldengs both have engineering degrees, graduating from the University of Saskatchewan in the early 1990s. By 1995 they decided to leave their professional careers and start farming because of the opportunity to own their own business and operate without the constraints of a regular job.

They believed the best opportunity was in hog production. They developed a multi-year business plan in 1996 and started a small farrow to finish operation with the goal of expanding in three phases over five years reaching 1,600 sows. This summer they finalized the expansion phase from 1,000 to 1,600 sows. They have eight full-time and two part-time employees.

Participation in a "value-chain marketing system" provided the market and financial security to complete the expansion this summer and achieve their five-year business goals. The Voldengs have been part of a "value-chain" initiative by World Wide Pork in Moose Jaw to develop a "pricing window" mechanism with a Japanese retailer and a number of select producers. This is an alliance of all players in the food chain, which set

prices and margins at each level and share the market risk. It is a new business model based on trust and mutual benefit for everyone at each step of the value-chain.

The Voldeng's state they could not have expanded from 1,000 to 1,600 sows this year without assurances of a market, market price, and a good profit margin. They have that assurance with the pricing window contract. This simplifies the marketing and most importantly, allows the Voldengs to focus on what they do best ... which is the production of uniform, high quality pork that is shipped regular as clockwork to a packer with the same quality objectives.

Farming has given the Voldengs, and their three small children, what they have always wanted ... their own business, freedom to innovate, a good return on assets and entrepreneurial opportunities with no limits on creative ways to make money. Last and most important, farming provides the lifestyle and quality of life they want for their young family.

Carol and John Husband, Husband's Foods, Wawota, Saskatchewan

John and Carol Husband raised purebred livestock for over 20 years on their third generation farm, settled by John's grandparents in 1900. The cattle business was very good to the Husbands, but as they got older the traveling to shows and other work got to be too hard. The farm did not generate enough net revenue to support any hired help. In 1989 they sold the herd and began looking for an alternative business.

The conventional way of farming did not seem to hold much promise, so they decided to convert their 1,760 acre to organic production. They started experimenting first with beans, 38 varieties of them. They settled on the varieties that tasted the best and the "taste test" with consumers remains the primary factor in picking varieties of other plants to grow. This is a very different approach to farming because it is based on what consumers want rather than focusing on maximizing yields, which often sacrifices taste.

Besides beans, the crop list includes several varieties of lentil, pea, flax and cereal grains and more than 40 different herbs and spices. The real success is a line of seven different kinds of soup mixes, each with a well-tested recipe attached. The Husbands do all their own cleaning, packaging and marketing. They have their own "on-farm" retail store as well as ship containers to major, high-end, retail stores in Toronto, Montreal and New York. They have expanded the retail aspect of the farm into a destination tourist attraction through utilizing a "turn of the 20th century" stone barn. They have five full-time employees, plus many part-time employees during the busy seasons. They contract a broad range of crops from neighbouring farms.

The secret to their success has several components. First, is understanding that not everyone is your customer, but you must really understand those who want to be your customer. Second, is developing strong alliances with suppliers and the retail partners. Third, is picking something that you really love to do.

In summary, not every farmer can do what these four families have done. But each of the above examples made extensive use of alliances with other farmers to produce specialized products under contract, at significant price premiums. There are enormous spin-offs to the community whenever someone “moves up the value-chain” in terms of spin-off supply and marketing businesses and jobs.

How Are We Going to Get There?

So how do we move up the value-chain? One easy way is to look at what the leading farmers are already doing. Some ideas can be replicated and others cannot. But there are some very basic business principles that are common to all successful leading farmers. I want to briefly highlight the main ones:

1. **Strategic Direction:** They have written business plans that extends at least five years into the future. They plan each year with the long-term in mind. They see the big picture. They have a succession plan for the transfer of farm assets to the next generation many years in advance. They understand the emerging trends in food safety, environmental protocols, and identify preserved, niche marketing.
2. **Market driven:** They are in close contact with the consumer, or end user, and understand the emerging trends. Then they go back to the farm and figure out how to give that customer exactly what they really want. It is many things including assurances of product safety, quality, healthy, nutrition, exotic tastes, convenience, and sometimes an “experience”.
3. **Vertically and Horizontally Aligned:** They realize they cannot be experts in everything and leverage their ideas, assets and networks extensively. They use business, mentors, accountants and lawyers. They trade independence for interdependence. They use alliances to sub-contract as much of the production, marketing, and processing as they can to reduce risk and maximize quality.
4. **Focus on people development:** Here’s a little theorem: “*Your success or income will be equal to the average of the ten closest people around you*”. Leading farmers make an effort to find other leading farmers ... or leaders in other sectors. They make an effort to improve their own knowledge and intentionally look for exciting and creative thinkers in order to get ideas or expand their business alliances.
5. **Communication and Marketing:** They are “on-line” and linked into systems, organizations and strategies that maximize their exposure to the market with minimum cost. It is marketing on a shoe-string. They constantly work at expanding their network of experts. They have links to the media, politicians, farm organizations and the corporate business community. They use the Internet extensively.
6. **Look for Opportunities:** Leading farmers are always working their network. It is important to note that more than half of many companies’ revenues, from technology to food service to banking comes from products and services that didn’t exist two years ago. Think about it. This is also true in farming and the food industry.
7. **Their Belief in Themselves:** This is the last point but perhaps the most important! Every one of the leading farmers I meet and interview are very optimistic about themselves, their family and the future of agriculture for their children. They know

government or improved markets will not improve their situation. It is up to them to take action.

I want to emphasize this last point with a quote from the Postscript of my book *Don't Turn Out the Lights: Entrepreneurship in Rural Saskatchewan*, page 124, as follows:

“... the primary qualities contributing to success are ‘in the mind’ and include such psychological attributes as passion, vision, drive, persistence, tenacity, motivation, self-confidence, a positive attitude and personal initiative. Entrepreneurs are successful because they embody the psychological attributes necessary to succeed. Henry Ford’s famous observations often came to mind as I interviewed leading farmers: ‘If you think you can, or think you can’t, you’re right!’ This idea underscores the necessity for a strong personal belief and a positive approach to problem solving. The secondary factors contributing to forming and running successful businesses are more concrete and can be termed ‘activities’ rather than ‘attributes’. These activities include market research, feasibility studies, and business plans. These activities are essential to running a successful business, but it is always the attributes stated above that guarantee success!”

Summary

Saskatchewan is centrally located to the largest “value-add” consumer market in the world. We have unparalleled transportation advantages to this market with the back-haul out of the province in both trucking and containers. We have world-class market research and product development capabilities in the Universities, business associations, and organizations and, most importantly, we have water ... the gold of the new economy!

We have a few small challenges in terms of attracting more investment capital and qualified workers for our growing “value-add” economy. Both of these can be resolved through an aggressive immigration strategy to attract another million people to the province between now and 2025. We have everything any entrepreneur could want. We need to invite immigrants and ex-patriots to a province that is open to business and they will help us with ideas, ingenuity and capital to create the jobs to sustain the growth.

Change will continue to occur in an increasing pace across Saskatchewan. Either we get in front of the wave and take advantage of the opportunities for our benefit or others will do it for their benefit. “Moving up the Value-Chain” in agriculture can be done, because leading farmers are already doing it, and doing it very well.

It is all about adapting to change. Adapting to change and managing change can best be summed up by this 19th century scientific discovery, which is still so very relevant to the 21st century.

Darwin’s Theory of Evolution

*“It is not the **fastest**, nor the **strongest**, nor the **smartest** that survive.*

*It is those best able to **adapt to change**”*

Charles Darwin

Good luck in 2003. We have awesome opportunities ahead of us.