

## PROFESSIONALISATION OF THE FARM BUSINESS

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### Abstract

*Increasing scale in family farms, the demands of maintaining a profitable business while meeting exacting standards of environmental management, and meeting the needs of the food consumer are all increasing the range of skill set required for today's farm business managers.*

*Associated with that, the skill set required for a rural professional to add value to such businesses is also more demanding.*

*This paper outlines, from the perspective of the New Zealand author, 12 skill sets a farm business manager will require, and 10 skills a rural professional required to add value to the farm business.*

*Key works: farm business, professionalism, integrator, attributes, skill sets*

### 1. Introduction

Professionalism has nothing to do with “who” owns the farm business, or “who” runs the farm business, but the skill set that is required and demonstrated.

We can better define farm size by the size of EBITDA (earnings before interest, tax, depreciation and amortisation). EBITDA is calculated as Gross Farm Income less farm working expenses.

In a global trading environment for food commodities, there is considerable, and increasing, volatility in EBITDA, and by definition, return on capital invested.

Hence, risk management skills, and the ability to integrate the various skill sets required to manage the business are critical success factors.

A skilled farm business manager and his farm management consultant hence require a honed ability to integrate the key skills. That integration mentality is the core skill in farm management.

### 2. Changes occurring on farm

In order to understand the skill sets required, I outline the changes occurring in today's farm business.

- increasing scale in family farms
- increased diversity, sophistication of skill set of the business manager
- increased demand to be accountable to other parts of society, including an increasingly demanding consumer
- a need to meet exacting standards of environmental management
- a need to prove integrity of food origin
- a need to cope with increasing volatility in food pricing as the global market increases in importance relative to the “local market”
- a need to understand and manage risk in all its forms
- a recognition that “average” is not good enough to make a competitive return on capital!

So what does this mean:

- Increasing professionalism in farming businesses

### **3. Twelve key skills**

In order to meet the production, profit, social, and environmental goals necessary I identify twelve skills a farm business manager requires:

#### **3.1 Human resources management**

In most countries, employees will require:

- contracts
- coaching
- organising
- mentoring
- managing

#### **3.2 Compliance is increasingly demanding on time, attention to detail, and culture**

- health & safety
- environmental issues
- animal welfare
- animal movement, and feed and chemical traceability
- financial compliance

#### **3.3 Cashflow management**

#### **3.4 Debt management**

In my part of New Zealand, a typical dairy farm of 210ha might have debt of US\$4.5M, a typical arable farm of 300ha might have debt of US\$2.5M.

That debt is usually borrowed by the banks offshore, and “swapped” into NZD. Interest rate exposure needs to be managed by the borrower.

#### **3.5 Animal feeding & nutrition**

#### **3.6 Pasture & crop agronomy**

#### **3.7 Animal & plant genetics**

#### **3.8 Technology skills**

#### **3.9 Interpretive skills**

- facts are useless without interpretation to turn them into usable information

### 3.10 Risk management

- balancing climate, pests, markets, exchange rates, and economics is a continuous task
- the best farmers know when to be aggressive, and when to be defensive

### 3.11 Strong networks

- links to research
- links to “interpreters”
- links to specialists (technical & finance)
- links to top farmers in our own country
- links to farmers in other parts of the world
- links to processors & marketers

### 3.12 Culture

A culture of ongoing learning (or professional development) to stay ahead of the curve

## 4. Utilising the skills

To successfully juggle that multitude of skills in future is likely to require:

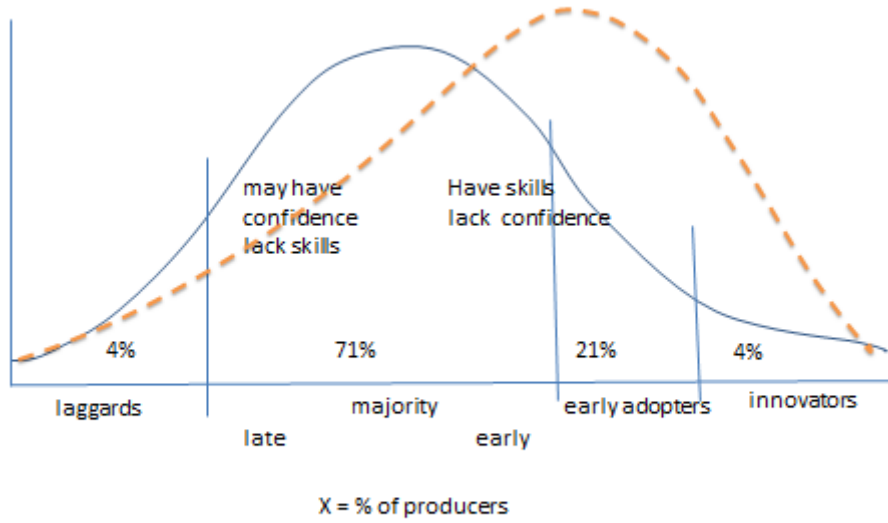
- Higher education
- A “can do” attitude
- Confidence
  - It is a subtle thing – look at sports teams!
- An “integrator” mentality
  - An integrator is one who can successfully juggle the balls, sort (filter) which ones are important, optimise the height they are thrown to, to get the best outcome for least risk.

Given all that, how does a rural professional add value to a client business?

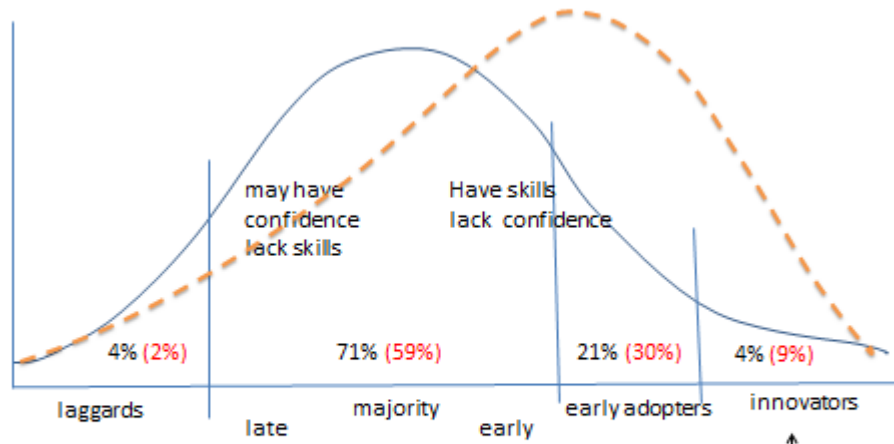
- identify your client attributes
- identify your own attributes
- identify how best to complement those attributes

Those attributes can be best described in graphical form, adapting a descriptive originally outlined by Everett Rogers.

In the following graphs, I also outline the ways in which a rural professional can support a farm business manager who falls into each part of the bell curve.



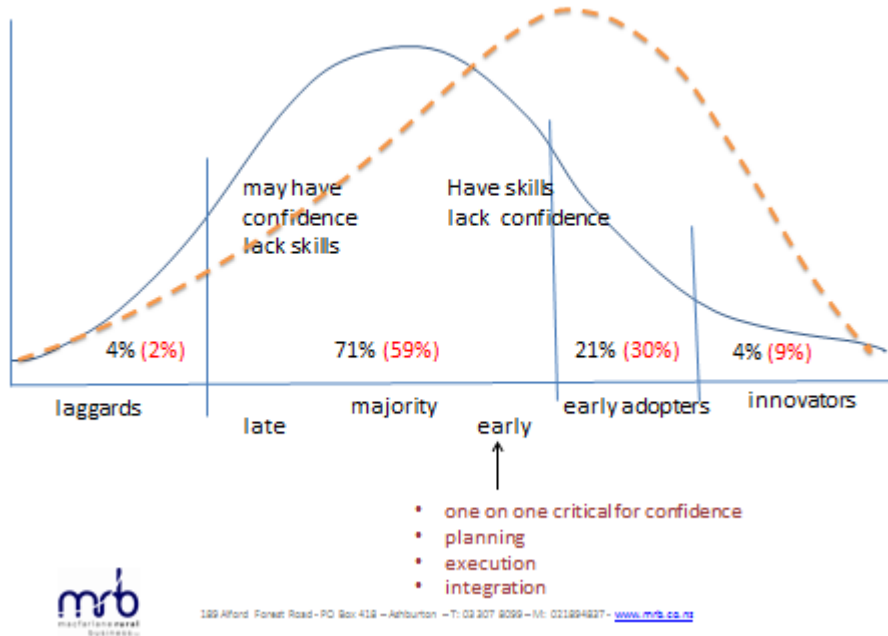
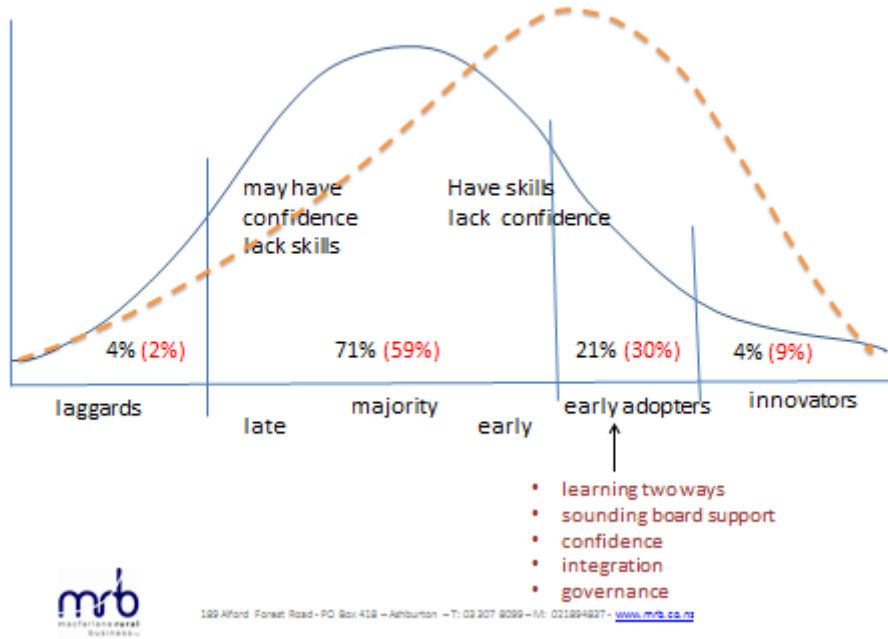
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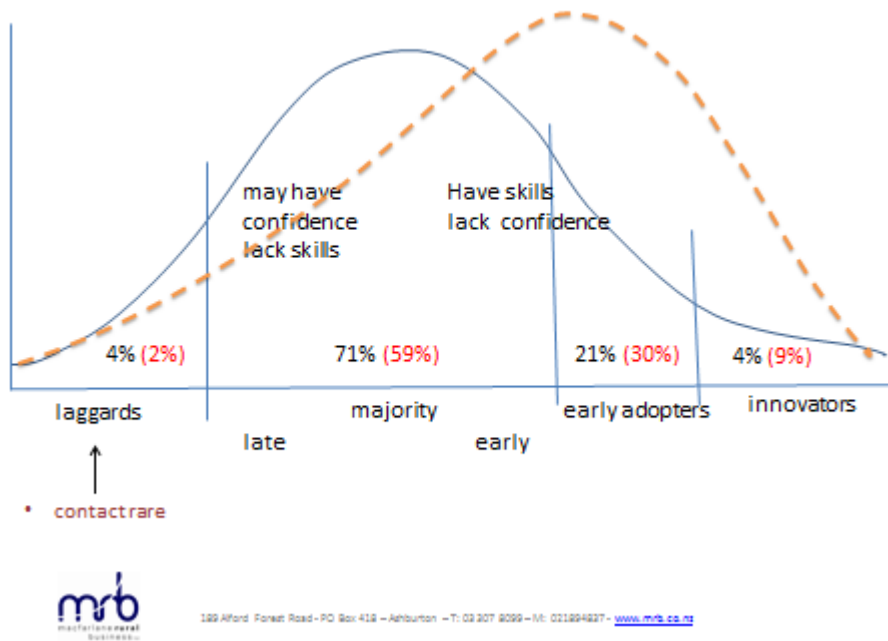
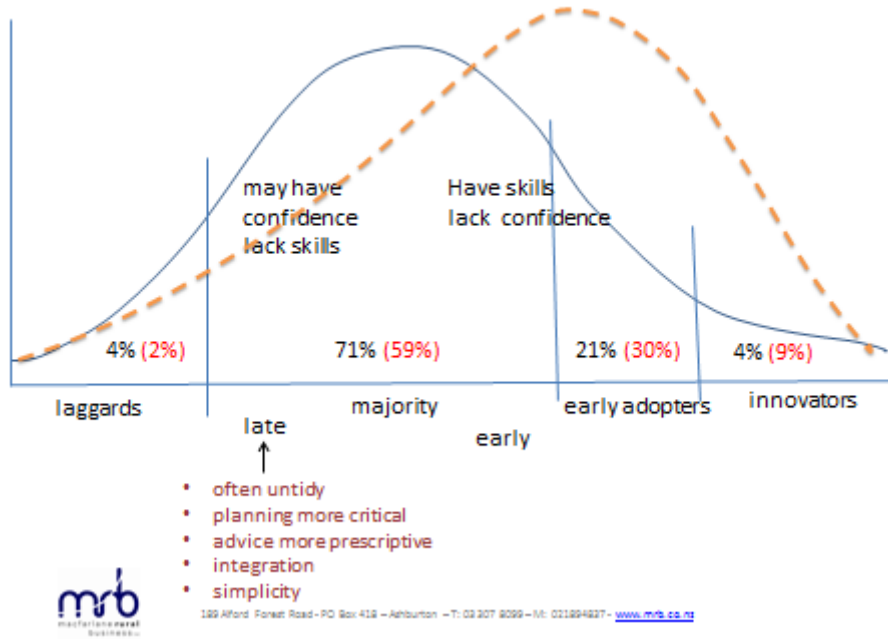


- Add structures
- Discipline risk/management
- Execution
- integration



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## 5. The skills required of a top farm management consultant

There are 10 other skills I believe a rural professional should have.

### 5.1. Understanding of risk

We have the advantage of seeing many businesses, and flying higher.  
Our judgement of when to push, and when to pull back the client is critical.  
Integrative skills are a core component of mitigating risk.

### 5.2. Think globally

We need to be:

- widely read
- widely travelled
- inquisitive
- analytical

(our top clients are!)

Markets for NZ farmers are off shore.

### 5.3. Investment disciplines

- many farmers struggle to make optimum use of a large asset
- debt is very useful, but too much debt reduces resilience and takes away business control
- bankers are not always the best placed to advise in this area!
- Sometimes more land is not the best investment

### 5.4. Filter!

A good rural professional should be able to absorb more information, filter it, and present the key messages in the context of the situation at hand.

### 5.5. Integrate

- the most successful farm businesses do similar things to the middle group
- they are more timely and integrate the options within a land use or between land uses more readily
- our role is to “see”, “encourage”, and assist execution of that integration

### 5.6. Patience

- results take time
- my most successful families now, worked really hard 25 years ago
- they felt unrewarded for that effort 15 years ago
- success “appeared” in the last decade
- biological systems take time
- we have to have the conviction and patience to convince families to keep pushing the flywheel
- farming is a marathon!

### 5.7. Governance

In mid-sized businesses where governance is less formal, governance is usually best held closely and low cost.

- mother is often best!
- rural professionals play a key role
- (especially farm management consultants, accountants, lawyers)

I see governance structures being put around some larger businesses where the business basics need to occur first, but where those basics are now in place, a good governance team can add real value:

- some strong personalities require the discipline of formal governance
- a team approach from the professional team creates more momentum
- other business managers/owners respond best to one on one

### 5.8. Technology & interpretation

- half the global data has been collected in the last five years
- data collection is moving into the “common space”
- data interpretation is of increasing value
- we need to be up to speed
- Precision Agriculture or “intelligent farming” is here!

### 5.9. Productive paranoia!

- The danger and risks are greatest when all is going well a time to increase vigilance, discipline, empirical analysis and creativity!
- The opportunities are greatest, and the risks least, when times are tough.
- Professionals can often be lulled into false security at the top, and pessimism at the bottom!

### 5.10. People skills

All the analysis, tools, and training is useless without the soft skills to create the best possible chance of our clients achieving their desired potential.

Global tertiary training in this area has been weaker than it should be, and our attitude to further education in people, psychological, and leadership management is also poor.

Our clients are running businesses with multiple staff – we need to walk in their shoes!

## 6. Conclusions

- Those farmers and their advisers who embrace the skills and training described above will outgrow their peers, regardless of the country in which they farm.
- The gap between the top and bottom farmers will therefore continue to increase.

## 7. References

Diffusion of Innovations, 5<sup>th</sup> Edition, Everett M Rogers