



DON DENTON

Farming the Next Millennium

For some Alberta farmers, those clouds on the horizon hold welcome change.

For others, apocalypse.

BY ANGIE RUMPF

Make your way along any asphalt corridor in Alberta during the coming months and you'll find yourself wrapped in an indescribably gorgeous landscape. Fields of green and gold ripening under the midsummer sun. Countless herds of cattle lazily feeding, the occasional head raised in acknowledgment of your passage. To the untrained eye, this pastoral scene looks—even smells—like money. Good money. The kind of money that has put this province ahead of all others in terms of financial outlook and economic stability.

But those who have been caught in the downward spiral of agriculture of recent history view those gilt expanses with a wary eye and a cynical heart. They wish fervently for some form of magic that will save them from financial ruin. A lottery win, perhaps. Alchemy that actually works. Or an unexpected upswing in commodity prices.

Sometime during the last twenty-five years, an unsettling trend emerged in the farming industry. Beef, wheat and other prices slowed to a halt, and in some markets even fell. Meanwhile, the cost of living in and doing business with the rest of the developed world loped along at a healthy pace.

Suddenly, the Alberta Advantage seemed not-so-advantageous to the province's farm population of 188,510,

many of whom have found themselves faced with the prospect of going big or going broke, often without sufficient resources to do anything but the latter.

Confronted with profit margins that have decreased by as much as 25 per cent in the same number of years, Alberta's growers are left to ponder some troubling questions: How do you make ends meet at the dawn of the 21st century on a 1970s income? How do you create a sustainable business environment in the same economic climate, well into the next millennium? What will keep farmers viable when profit margins are declining?

The Catch

And declining they are, largely due to an increase in the size of today's farms and the capital investments required to successfully run them. To be certain, farm size has increased dramatically in the last quarter century, thanks to mechanization, chemical fertilizers and pesticides, all of which allow a single person to do more work more effectively. Meaning that more high-grade crops are being produced each year.

But while the size of farms has increased, the overall number of farms has decreased proportionately, leaving fewer operators to work the 51 million acres of land currently used to produce crop and livestock in Alberta.



Which spells trouble when it comes to tackling operational decisions.

“Technology may make the physical aspects of the job simpler,” says Wilson Loree, head of the Agricultural Business Management Branch of Alberta Agriculture, Food and Rural Development and author of a benchmark study of Western Canadian farmers. “But it requires feats of mental gymnastics to manage all of those decisions. Each year, a grower has to match seed with compatible pesticides, work out crop and herbicide rotations, figure how much of what types of fertilizers need to be applied where, try to select optimum dates for seeding, spraying and harvesting—and that’s just for starters.”

Add to this two simple facts: the chemicals and machines that have brought the industry economic success are themselves expensive; and agri-food commodity prices have bottomed out in the last two years. The sum total is potential economic disaster. Alberta’s farm cash receipts—cash received by producers from the sale of agricultural commodities plus direct payments from farm insurance and support programs, excluding inter-farm sales within the province—were \$6.38-billion for 1998. But farm debt had already reached \$7.95-billion by the end of 1997.

So, while farmers and ranchers contribute an average of 5 per cent of the province’s total Gross Domestic Product each year—the top-ranked oil and gas industry’s contributions amount to only 20 per cent of total GDP—less and less of that cash is finding its way back into their own pockets.

The Best Defence

Not surprisingly, Loree and his colleagues concluded after extensive research that a successful producer is always on the offensive when it comes to marketing strategy. And that the business management practices necessary to achieve success are essentially the same today as they were 50 years ago. But that the risk of ignoring a single operational aspect, particularly economic and investment analysis, bears dire consequences for the individual

producer. “You can’t continue to grow just anything and believe ‘they will come,’” Loree asserts. “You have to determine what the consumer market wants and produce it.”

Loree cites the current media debate surrounding Genetically Modified Organisms (GMOs). Alberta agriculture is an export-driven industry: revenue from agri-food exports grew 96 per cent between 1992 and 1996. Yet, since 1997, the number of foreign markets willing to accept GMOs—which include everything from biopharmaceuticals, to steroid- and antibiotic-injected cattle, to herbicide-tolerant canola—has dropped dramatically. Some blame it on outbreaks of mad cow disease in Britain. Others portray the decision as an effort by Europe to protect its own economic and trade interests. Whatever the case, says Loree, producers need to stop focusing on top yield and start growing products to meet demand.

Also of increasing interest among growers is value-added production. Traditionally the domain of agribusinesses, agri-food processors and trade boards, value-added products are just now being reclaimed by those who grow the raw materials used to make them. Whether it be harvesting seed, grinding grain, pressing oilseeds or cutting meat, the people responsible for creating end-user products are also the ones making the most money. It stands to reason, then, that for every step farmers take away from selling raw agri-food commodities alone, they add value to their operation—and relax the stranglehold that agribusiness and processors have on their operations.

Loree sees two avenues of production emerging from this newly minted business philosophy: what he terms the “boutique” and the “big box” modes of production. The former offers premium products to consumers at a prime rate. Growers can make money in niche markets, he argues, because of the relative wealth enjoyed by industrialized nations. Developed countries with aging consumer populations want, and are willing to pay for, uncommon products. On the other hand, commodity-oriented, “big box” production methods continue to remain popular,

simply because they provide the public with a cheaper, high-volume food alternative.

To decide which strategy is best suited to their individual circumstances, Loree urges growers to pay close attention to the strengths, weaknesses and opportunities of their operations as well as threats they need to contend with. “These days, it takes longer than ever to recover financially from a single loss or mistake. Knowing what will get a return, and not putting money into the wrong place is essential, because of the scale of capital investment required on today’s farms.”

Which is precisely why success—if not survival—now depends on paying attention to market shifts. The ability to identify what the world wants and respond quickly to fulfill those requests will likely be the biggest determinant of success among Alberta farmers in the 21st century.

Take, for example, the following three Alberta growers. Each has successfully adopted market-targeted strategies that make the most of available resources. And each still turns a profit.

The Players

CREATIVITY AND VISION: Lee & Ben Pengilly

At 960 acres, the Pengilly farm at Stirling, Alberta, is only 20 acres larger than the provincial average. Lee Pengilly and husband Ben, married 25 years, are co-owners and operators of the business—the third generation to farm this land, in fact. Lee is an active participant in the Canadian Agricultural Lifetime Leadership Program and takes continuing education courses to stay in touch with new business trends.

At one point, the Pengilly farm was a successful conventional operation. But like many farmers during the 1980s, the family found itself stumbling from one crisis to the next. Lack of soil fertility was a growing problem. Each year, the Pengillys found themselves spending more on chemical pesticides and fertilizers. “We figured we had three options,” Lee recalls. “Do nothing. Do the same thing, only harder. Or do something different altogether.”

They opted for the third.

As of Spring 2000, every acre of the Pengillys’ farm will be 100 per cent certified organic. Soil health is now maintained through crop rotations rather than chemicals. Production has been diversified to include not only grains, lentils and forages, but cattle and poultry as well. Today, the Pengillys are netting better returns than they have in years.

Through it all, Lee has developed a holistic view of farming and believes in having a vision for your operation. Her advice? Start with a long-term, creative business plan that you continually monitor and re-evaluate. While you’re at it, develop a back-up plan. Make decisions and live in a manner that’s congruent with your vision.

To keep costs low, the Pengillys purchase and operate

used equipment. They weigh production against profit with every decision they make. They also strive to build solid partnerships with professionals they trust, and maintain constant communication with their team throughout the year. On occasion, they will hire consultants, but rely heavily on self-education and personal vision.

Part of the Pengillys’ new philosophy has evolved from their foray into value-added production and marketing. At farmers’ markets, the Pengillys sell a wide variety of what they grow. Lee admits that in the age of the vigilante consumer, more and more people are very well educated about what they’re putting into their mouths. “Spend a weekend at a farmers’ market and you’ll see how accountable you are to buyers,” she laughs. “With direct marketing, you feel a greater link between yourself and the consumer. It awakens you to the fact that agriculture is indeed a quality-driven market.”

CROP QUALITY: Spencer Hilton

Spencer Hilton farms with his wife Lynn, dad Gordon and brother Sterling 40 miles east of Calgary. At 4,000 acres, their farm’s size is well above the provincial average; they would be considered a “big box” operation. The farm’s main focus is rotational cropping of alfalfa, wheat, barley and canola. They have a small cattle operation (200 head) as well.



ALBERTA AGRICULTURE

Zero-till conservation prevents soil erosion and moisture loss.

Concerned since the mid-70s with preserving the integrity of their land, the Hiltons are advocates of zero-till conservation, whereby the soil is disturbed as little as possible. Their direct seeding equipment uses a combination of soil openers, air hoses and packing wheels to apply seed, fertilizer and other treatments in a single pass. The technique helps prevent soil erosion and the loss of needed moisture and nutrients.

Adding to the ease and efficiency of the Hilton’s direct-seeding operation is herbicide-tolerant canola. Hilton credits this biotech-engineered crop, introduced in the early ’90s, with allowing him and his family to enhance

soil conservation. "Because it lets us seed earlier and apply a broad-spectrum herbicide afterward," he explains, "it keeps our fields cleaner. We go in fewer times to spray and come out with a higher-yielding crop." All of which adds up to increased market viability.

Hilton attributes concern in foreign markets about the healthfulness of this GMO to negative hype and thinly veiled protectionism. "We have strict regulations behind this science," he explains. "In fact, there's great potential to help both consumer and environment through the development of healthier, more nutrient-packed crops, biodegradable plastics and biopharmaceuticals."

The multi-family nature of their operation allows the Hiltons to spread out individual risk and minimize capital investment. They hire the neighbours as custom harvesters. They share equipment purchase costs. However, in coming to rely heavily on a single piece of equipment for a large workload, they must keep each piece of equipment in peak running condition all of the time. "We can't afford to buy cheap parts or second-hand," Hilton admits. "We're always pushing and balancing efficiency."

Hilton agrees that market demand exists for both "boutique" and "big box" producers. "The neat opportunity right now," he adds with some excitement, "is that, as farmers rely less on the Wheat Board, which was big box alone, they have more of a chance to tap into that niche market."

In doing so, Hilton feels that farmers should remember where they're located. "When you talk about marketing, the most important aspect is to uphold the country's unique selling point, namely, the reality and perception that we're growing really high-quality food."

FARM SMARTS: Wyatt Swanson

Wyatt Swanson is among the 49 per cent of Alberta producers who are sole proprietors of their farm business. At his Provost, Alberta, ranch, a large commercial cow herd is sustained by a private feed lot and an alfalfa operation. Swanson is currently president of the East Central Forage Association and acting director for the Forage Industry Advisory Committee. He frequently speaks to producer groups and conferences across Western Canada about how cattle and grain producers can combine their resources to develop low-cost production systems.

According to Swanson, the farm crisis is not temporary. With zero per cent population growth and an aging consumer market in developed countries, he explains, the demand for higher quantities of crops just isn't there. "Beef dollars have dropped by half [over the last 20 years], and producers have responded by growing their operations to three times the size they were 20 years ago. Yet they continue to earn less net revenue."

Swanson himself has tried many ways to make it in the

ag business. After expanding in the 1970s, he found himself caught by dropping profit margins. Drought only brought the crisis to the forefront. He soon developed a system that allowed him to use his available resources to his benefit.

The strategy? Decide what your operation's unique advantage is, be it soil quality, weather, or access to certain markets, then use it. Become well informed. Figure out how to use technology to your advantage. Conduct your own information and market analysis. Control your own destiny. "Because if you go with what the majority are doing," he asserts, "you won't make the extra return."

Swanson has turned lower rainfall in his area to his advantage. Leaving behind the time, energy and expense of crop irrigation, Swanson turned to raising a larger cow herd which, he says, he can do with less manpower in dry conditions. The one disadvantage is that with poor growing conditions comes a lack of cheap feed. Fortunately, Swanson has been able to capitalize on his geographical proximity to the Saskatchewan border, where he can purchase cheap grain by-products to feed his herd.

"We got off the agribusiness treadmill," he explains, "by learning how to use one operation to complement another. Now, instead of buying chemical fertilizer, we recycle manure. Rather than using machinery and manpower to harvest crops for feed, we allow the herd to graze the fields. And in doing so, we've managed to slash inputs from \$100,000 to \$10,000 a year."

Moreover, Swanson and his neighbours have begun to share resources. When one neighbour loans him machinery, Swanson returns the favour by providing trucks for harvest. "There's a lot of pride in this business," Swanson concedes. "People don't want to admit their margins are that low. But in hard times, people dig deep to find solutions."

Ultimately, says Swanson, those solutions reside in value-added agriculture. "Companies want control of your operation from the time you buy seed until after you've harvested," he warns. "If farmers are not careful, we could find ourselves becoming serfs to corporate landlords."

The Forecast

The agriculture industry in this province accounts for 25 per cent of Canada's annual primary agricultural production. It has been to a great degree responsible for the Alberta Advantage. For many, the farm crisis looms large on the horizon. Still, according to Wilson Loree's figures, half the farm population remains optimistic about the future. Whether it be anticipating market fluctuations, cutting costs, adding value or catering to consumer demand, farmers are willing to change.

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