

Summary Document

Lessons from 20 Years of Management Training in the Agri-food Sector



October 2013

About this Paper

For over 30 years, Dr. Larry Martin has been teaching management courses specifically for the agri-food sector. Over that time, many lessons have been learned that are applicable to a wider audience. This paper outlines some of those lessons.

The first course was *Risk Management using futures and options*. The *Executive Development Program* (EDP) for business managers was introduced in 1994. It has since been renamed *Canadian Food and Agri-business Management Excellence (CFAME)*. *Canadian Total Excellence in Agricultural Management* (CTEAM) followed in 1998 and was designed especially for farmers who want to take their farm businesses to the next level.

Fast forward many years, a couple of national awards of excellence and literally hundreds of graduates later – Larry is still as passionate about teaching and is now a Principal at Agri-Food Management Excellence, providers of the courses mentioned above, as well as others.

This paper is an introduction to a series that our company will produce over the next few months. To ensure that you receive a copy, please add your name to our subscriber list via our website: www.agrifoodtraining.com/contact.

We hope you find the information useful and motivating.

Heather Broughton and *Larry Martin*
Agri-Food Management Excellence

- Lesson 1** Many Canadian Managers don't understand the market we're in
- Lesson 2** Most Managers Are Not Prepared for Price Volatility
- Lesson 3** Too Few Managers See Accounting Statements As Management Tools
- Lesson 4** Hardly Anyone Understands Leverage and Financial Risk
- Lesson 5** Capital Needs to Replace Labour
- Lesson 6** Most Small Businesses Don't Understand the Value of a Written Plan
- Lesson 7** Risk Management Needs More Emphasis
- Lesson 8** Giving Tools Is Not Enough, Need Help in Implementation

Key Points

Lesson 1

Many Canadian Managers don't understand the market we're in

- With the Canada US Trade Agreement in the 1990's, the North American market became much more integrated (except for dairy and poultry), requiring Canadians to learn to compete with US industries. Additionally, some of the historical trade barriers are declining.
- Population and incomes are growing rapidly in emerging economies driving food demand. The value of international trade has grown exponentially to meet this international requirement. The combination of population and income growth, if they remain, will continue to put pressure on the food system going forward.
- Three billion people still have incomes below two dollars per day. The potential growth in demand for food and, therefore, international trade is nearly mind-boggling.
- Growth in crop production can only come from two sources; increased acres or increased yields. Because of the non-food uses of land that are essential, the most likely source is increased yields. A number of studies conclude that production and yields would need to double by 2050 to meet the expected demand. This can only be accomplished if yields increase by 2.4% per year.

Lesson 3

Too Few Managers See Accounting Statements As Management Tools

- Accounting provides rich information to help with management decisions.
- EBITDA, or operating income, is the net cash thrown off by the business. It is what's left after paying operating expenses.
- Having performance information on both operations and capital management allows managers to benchmark and set financial performance targets for their own business and to benchmark against other businesses. There is considerable evidence that top farms have operating efficiency ratios above 35%.
- Clearly, there can be a relationship between depreciation (amount of capital base) and operating efficiency, but keeping the two separate with appropriate benchmarks allows clear diagnosis of opportunities and problems in each area.

Lesson 2

Most Managers Are Not Prepared for Price Volatility

- Commodity price volatility has increased since 2004 as demand has exploded.
- The demand side of the market has raised relative prices of corn and soybeans. At the same time, genetic improvement of yields has been much more rapid for corn and soybeans than for wheat. The two sets of factors together resulted in more rapid growth in production of corn and wheat.
- While there has been considerable growth in production (and consumption) of the major grains, price volatility has also risen substantially
- Research concludes that speculators are drawn to the markets because of volatility - more than they cause volatility.
- When the stocks/use ratio declines, prices rise and vice versa. When prices rise they are much more volatile than when they are low. This means there is much more volatility and instability when stocks are low and product prices are high.
- In our experience, very few managers in the agri-food sector are prepared to manage this price risk. Those who are prepared will have a considerable advantage if volatility increases as expected.

Lesson 4

Hardly Anyone Understands Leverage and Financial Risk

- The debt/EBITDA ratio is a much more useful measure of leverage for managers.
- Experience shows that ratios much above 2.75-3.25 are too high and may result in major problems of sustainability.

Key Points

Lesson 5

Capital Needs to Replace Labour

- US food companies have \$2 more than Canadian companies after paying labour and variable costs.
- Labour productivity rises with investment in mechanization, advanced technologies and economies of size. Workers can achieve more when they have better equipment and employers can afford to pay them more as a result.
- Despite current concerns about unemployment, Canada is likely to face severe labour shortages in the future. By 2015 or 2016, fewer people will enter the Canadian workforce than will leave it.
- This will put upward pressure on wage rates. Canadian industry needs, therefore, to stop obsessing about wage rates and exchange rates and invest in modern equipment and larger operations to gain economies of size. Of course, this also means that those industries need to have better access to foreign markets in order to take advantage of the economies.

Lesson 7

Risk Management Needs More Emphasis

- Experience suggests that many people not only don't have a risk management plan, but also don't have a process for evaluating the effect risk will have on their operations.
- Businesses need a process to identify, quantify and manage risk.

Lesson 6

Most Small Businesses Don't Understand the Value of a Written Plan

- Extraordinary things happens when managers write down their intentions – and revisit them regularly to see whether they are being effective.
- The comment we often get is “this is a life and business changing course”. This is mainly because we require participants to write a plan, give them coaching on how to develop and use it, and then use the plan and planning process as a way to improve processes and to achieve goals.

Lesson 8

Giving Tools Is Not Enough, Need Help in Implementation

- Sitting and listening in lectures is one of the poorest ways to learn. An emphasis on experiential learning through practical work and coaching is very effective and is the preferred approach for AME programs today.

Conclusion

The Canadian agri-food sector has a potentially bright future in the unfolding market place that we're seeing. However, risks and uncertainties are far higher than they have ever been, especially with the capitalization of several years of high grain prices into land values. In addition, the opportunities afforded the sector are more complex than ever in the past.

Both the opportunities and risks mean that good management can make or save more income than ever before. Perhaps this set of lessons that we have learned from over 20 years of management training in the sector will assist in moving forward. It is a general introduction to a series of papers that our company will produce over the next few months.



About AME

Agri-food Management Excellence provides management and leadership programs specifically for agri-food professionals. Our training helps graduates develop a high level of management capability in a time frame that is shorter and at a cost that is lower than traditional alternatives.

Owned and operated by Larry Martin and Heather Broughton, AME focuses on experiential learning through the support of well respected instructors who are experts in academia and their respected fields. Some AME programs may be applied for credit toward an MBA at the University of Guelph.

For more information, please visit:

www.agrifoodtraining.com

Contacts

Dr. Larry Martin
+1 519 841 1698
larry@agrifoodtraining.com

Heather Broughton
+1 780 781 2840
heather@agrifoodtraining.com

To reference, please cite:
Dr. Larry Martin, Agri-Food Management Excellence, 2013.

