Agriculture of the Middle: A Development Model

Rural Cooperation in the 21st Century;
Unique Opportunities for Farm Families

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What is the Agriculture of the Middle?

- Middle size?
  - Small, large, in-between?
- Middle market?
  - Direct, commodity, differentiated?
- Middle phenomenon?
  - An emerging concept with various features---including thinking and planning for "resilience"

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What are the Drivers?

- Emerging Challenges
  - The end of the “neo-caloric era” –Schusky
  - Climate “weirdness”
  - The vulnerability of consolidation
  - Young farmer entry barriers
- Emerging Opportunities
  - The Food Revolution: “Food Citizens”
  - Benefits of cooperation vs domination
  - Potential collapse of the global food system
  - The food and health connection
  - Knowledge intensive advantage

Disturbing Trends

- A Few Statistics: Examples from the US.
  - 2.2 million farmers -- but
  - Crop prices increasing -- but

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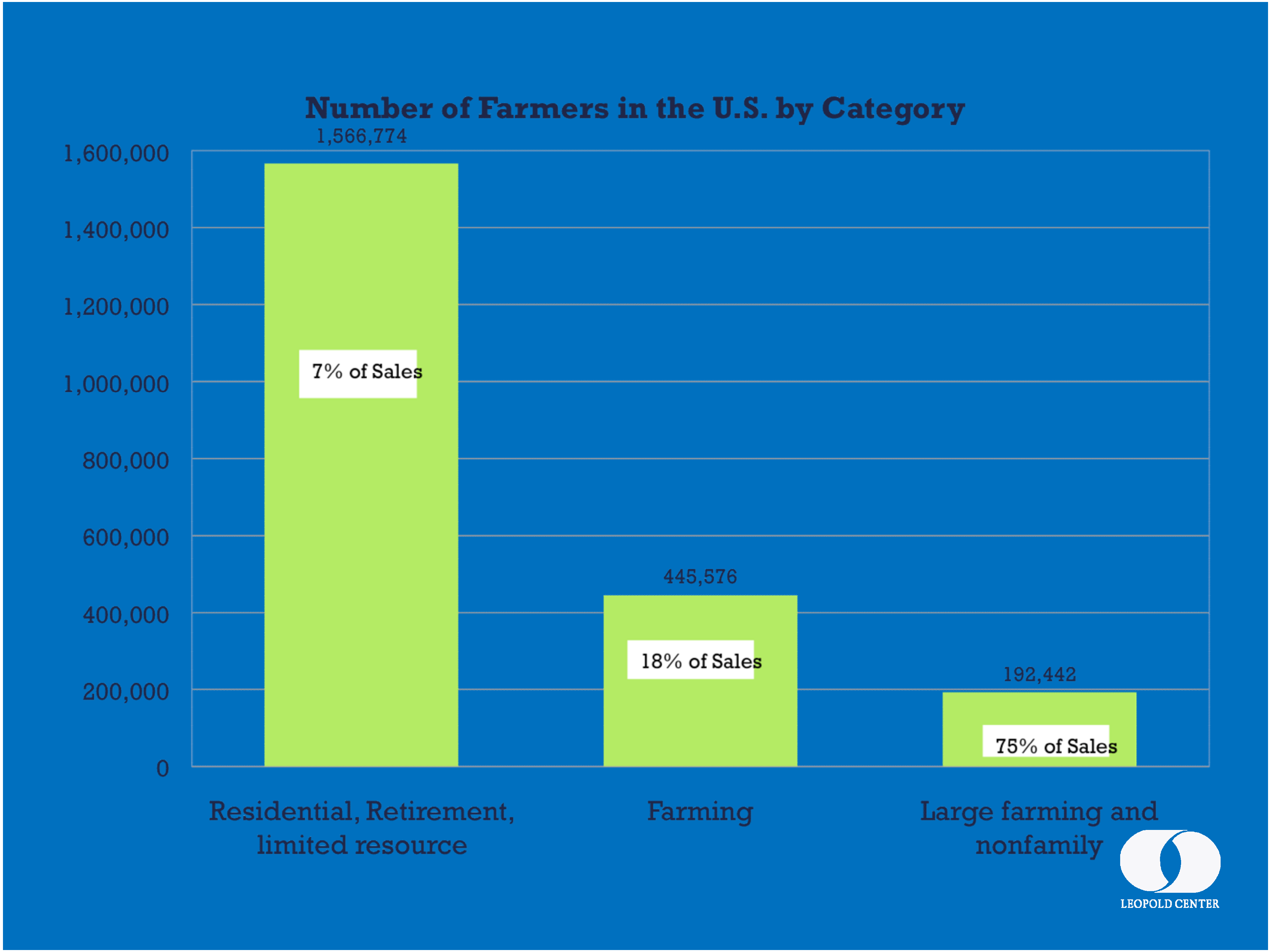
Number of Farmers in the U.S. by Category
1,566,774
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
7% of Sales
445,576
18% of Sales
192,442
75% of Sales
Residential, Retirement, limited resource
Farming
Large farming and nonfamily
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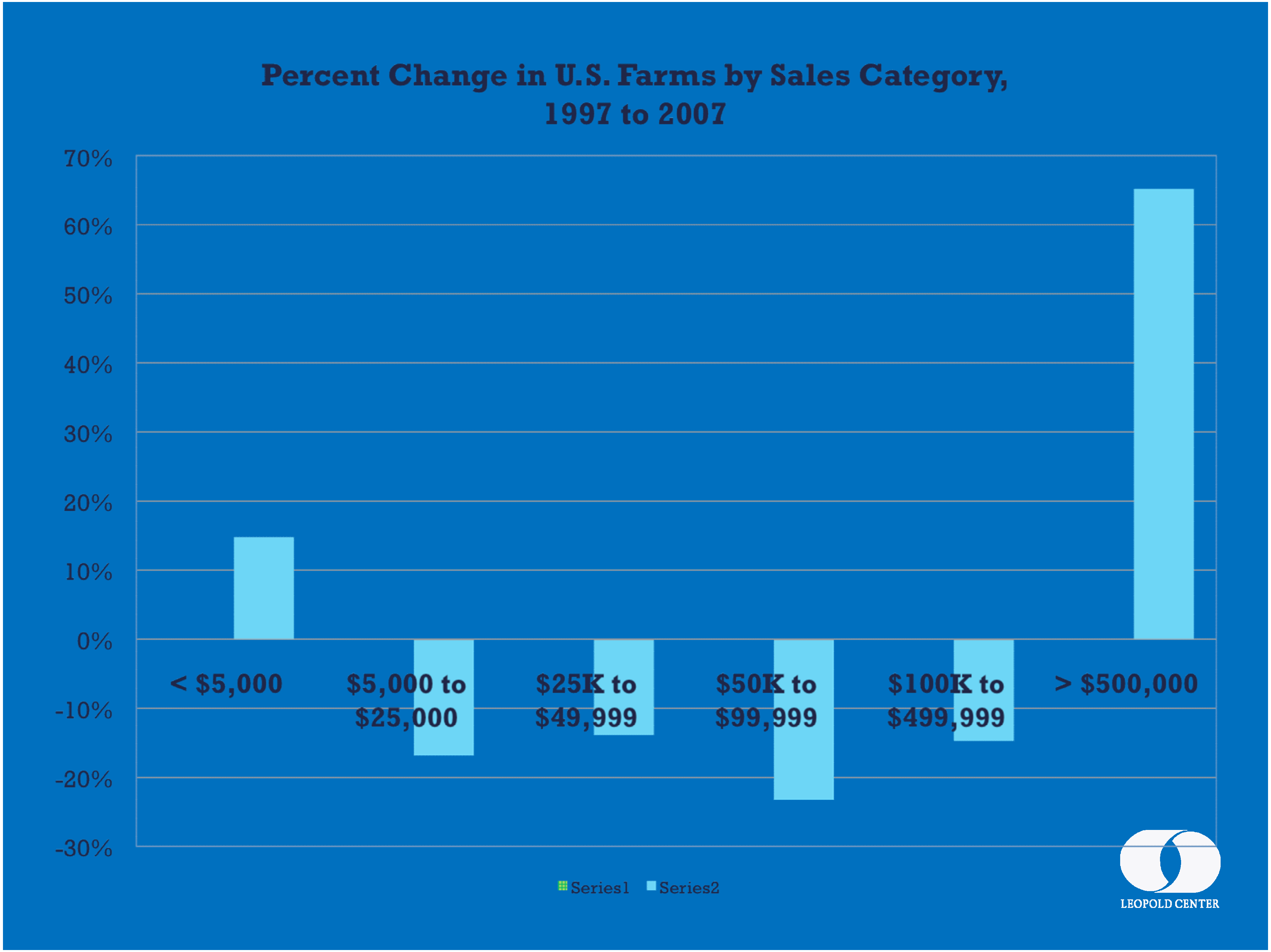

Percent Change in U.S. Farms by Sales Category,
1997 to 2007
70%
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
< $5,000
$5,000 to $25,000
$25K to $49,999
$50K to $99,999
$100K to $499,999
> $500,000
Series1
Series2
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Why the "Disappearing Middle?

Efficiency vs Concentration and Transaction costs

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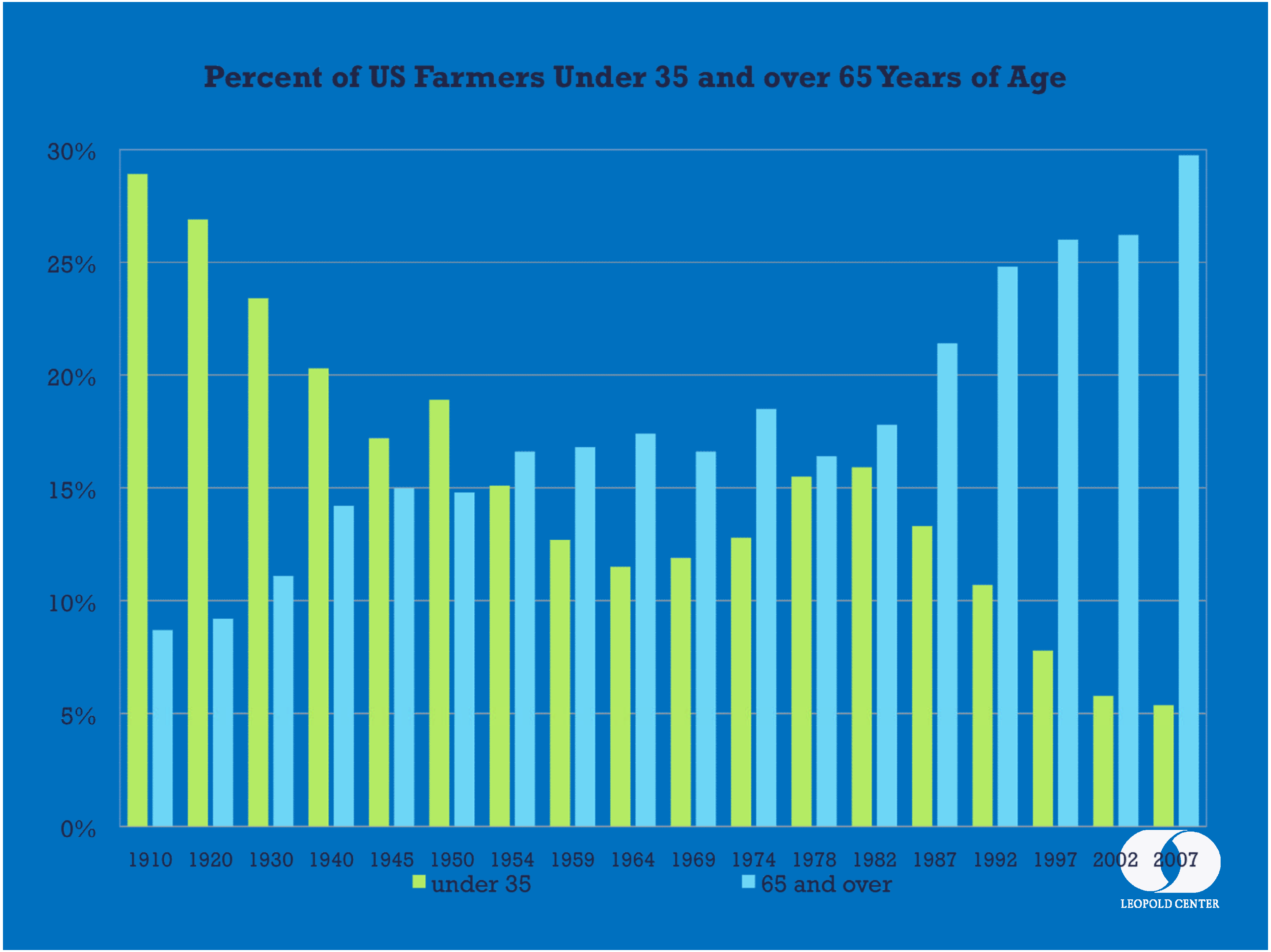
Percent of US Farmers Under 35 and over 65 Years of Age
30%
25%
20%
15%
10%
5%
0%
1910 1920 1930 1940 1945 1950 1954 1959 1964 1969 1974 1978 1982 1987 1992 1997 2002 2007
under 35
65 and over
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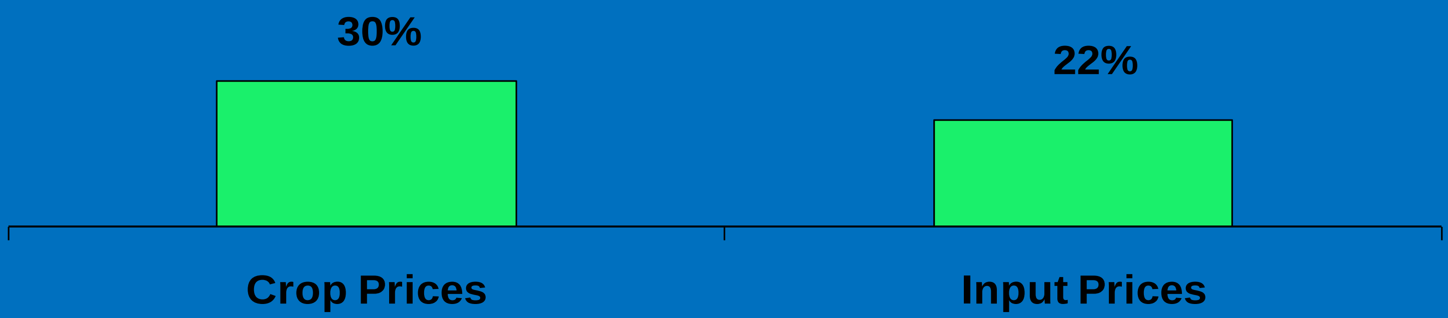
Increasing Crop Prices are …

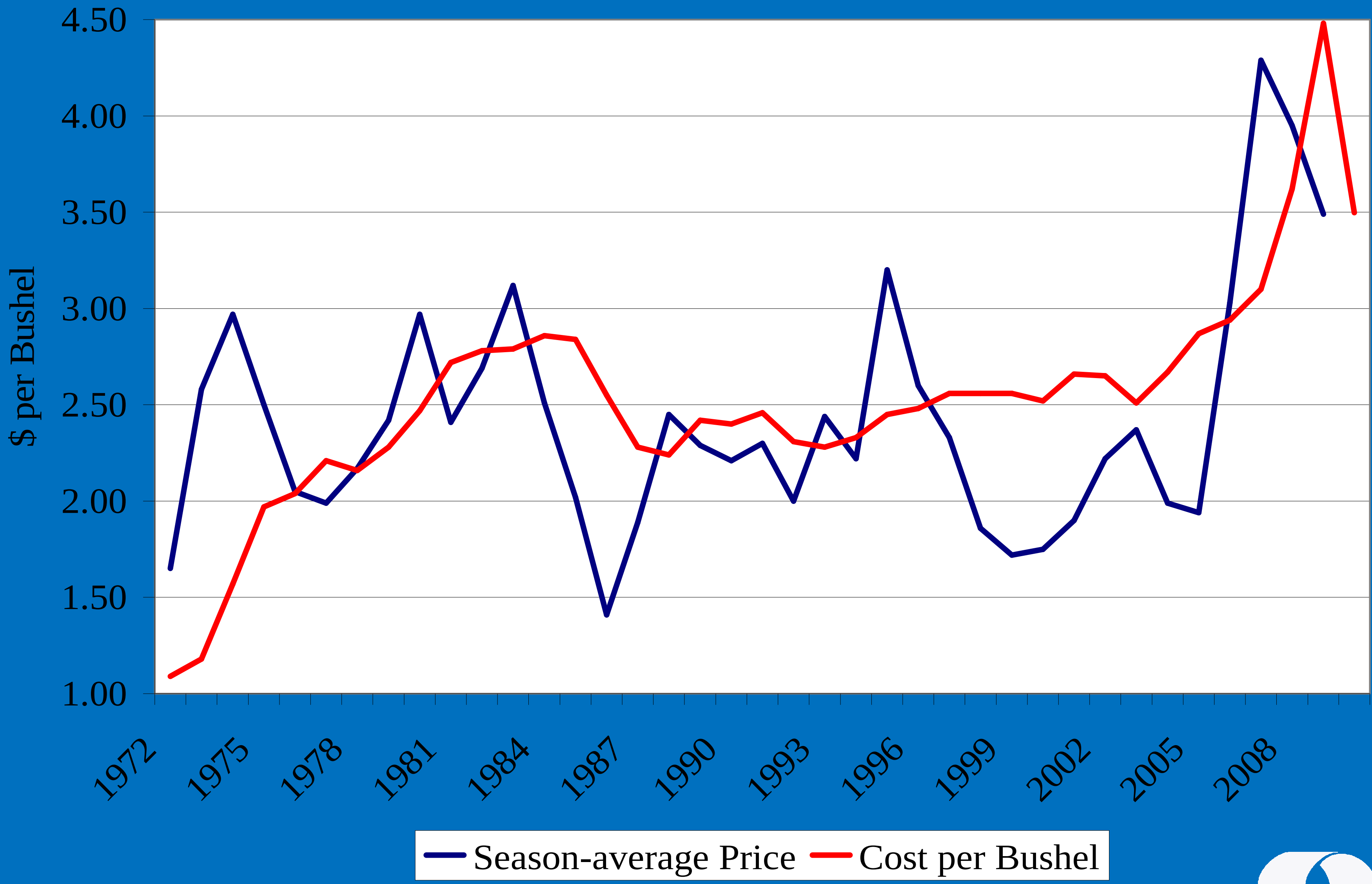
Comparison of prices in July 2007 vs. average 2001-05



… being followed by increasing costs for crop production inputs (including interest, taxes, and wage rates)

Source: Original calculations using data from U.S. Department of Agriculture, National Agricultural Statistics Service.

Iowa Corn Prices vs. Costs



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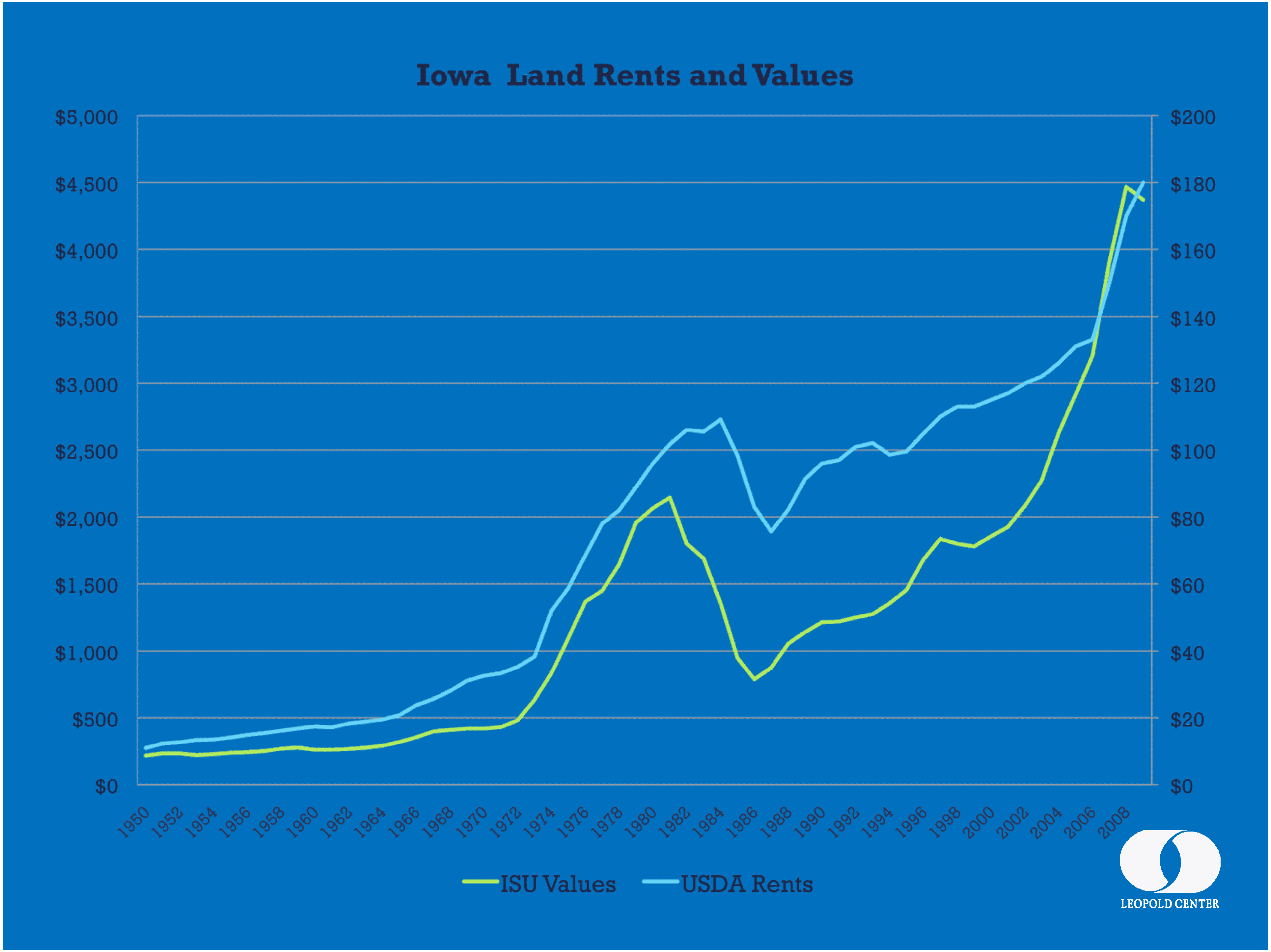
Iowa Land Rents and Values
$5,000
$4,500
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
$200
$180
$160
$140
$120
$100
$80
$60
$40
$20
$0
1950
1952
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
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2000
2002
2004
2006
2008
ISU Values
USDA Rents
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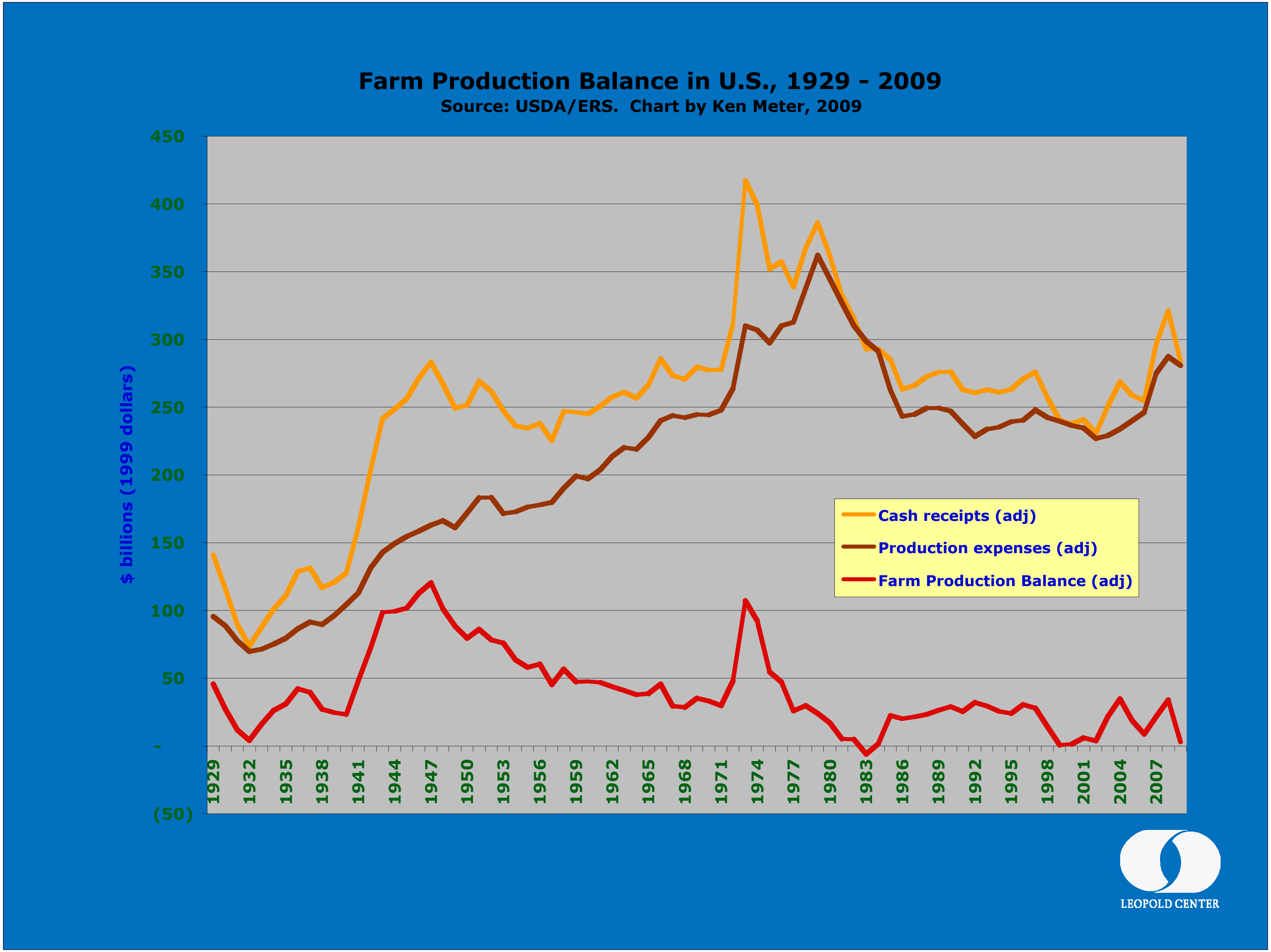

Farm Production Balance in U.S., 1929 - 2009
Source: USDA/ERS. Chart by Ken Meter, 2009
$ billions (1999 dollars)
450
400
350
300
250
200
150
100
50
-
(50)
1929
1932
1935
1938
1941
1944
1947
1950
1953
1956
1959
1962
1965
1968
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
Cash receipts (adj)
Production expenses (adj)
Farm Production Balance (adj)
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Choosing a Marketing Path

Michael Porter: Competing in a global economy:

1. Being the lowest cost supplier of an undifferentiated commodity, (price)

or

2. Providing the market with a unique and superior value in terms of product quality, special features or after-sales service. (differentiation)

While not impossible it is “extremely difficult for the same firm to do both”

- *The Competitive Advantage of Nations*

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The Emerging Alternative Market

"Our company's marketing strategy is based on memory, romance and trust."

-- Rick Schnieders, Former President/CEO, SYSCO Corp (*Keynote, Practical Farmers of Iowa annual conference, January 25, 2003)*

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Creating Shared Value

"The traditional playbook calls for companies to commoditize and exert maximum bargaining power on suppliers to drive down prices . . . More recently, firms have been rapidly outsourcing to suppliers in lower-wage locations."

-- Michael Porter and Mark Kramer

Harvard Business Review, Jan/Feb, 2011

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Advantages of Creating Shared Value

"Today some companies are beginning to understand that marginalized suppliers cannot remain productive or sustain, much less improve their quality."

-- Porter and Kramer

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“Fair Trade” vs “Shared Value”

“Fair trade is mostly about redistribution . . . Shared value focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions to increase farmers’ . . . sustainability.”

“Fair trade can increase farmers’ incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%”

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Farmer Choices

To each his/her own

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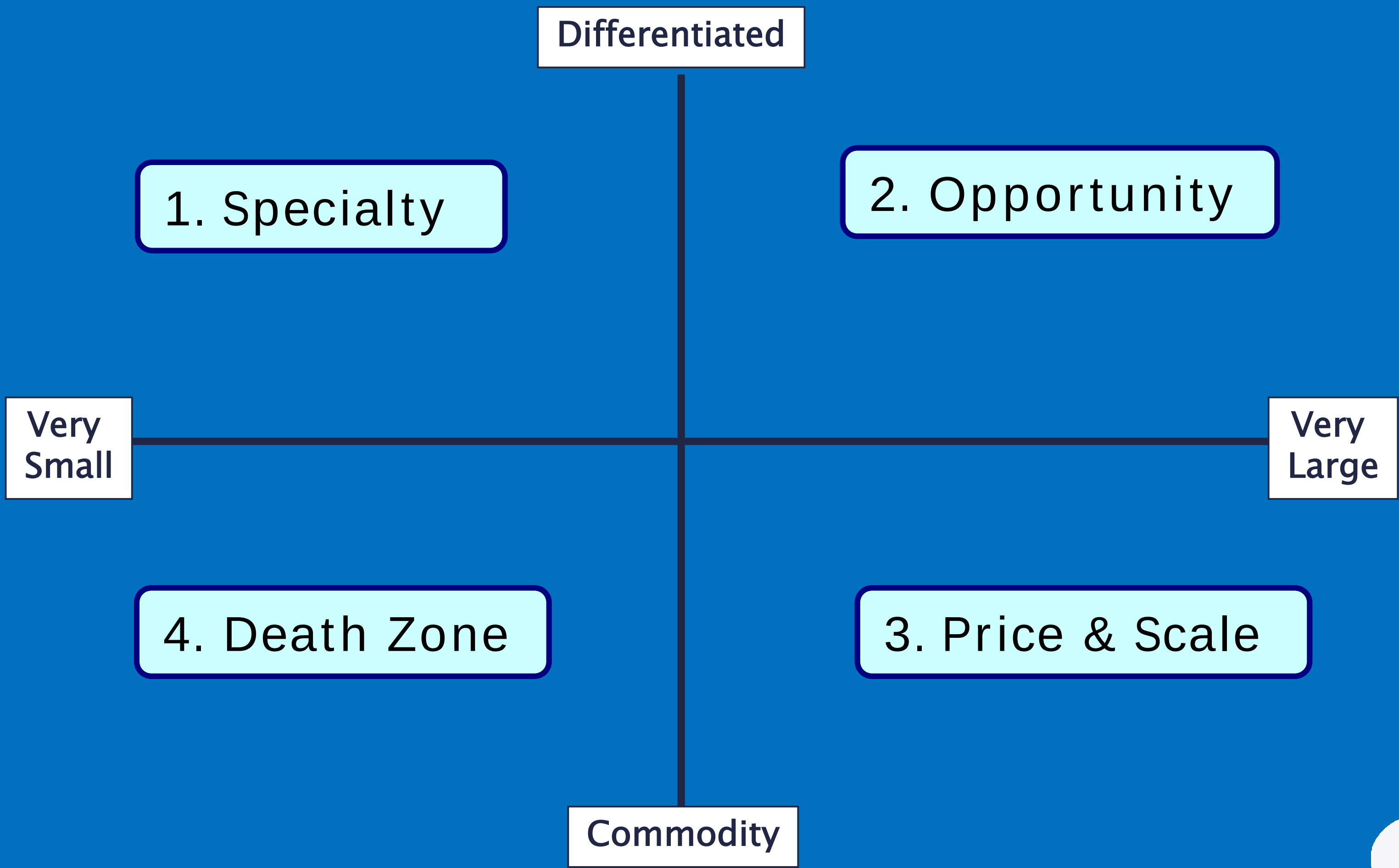
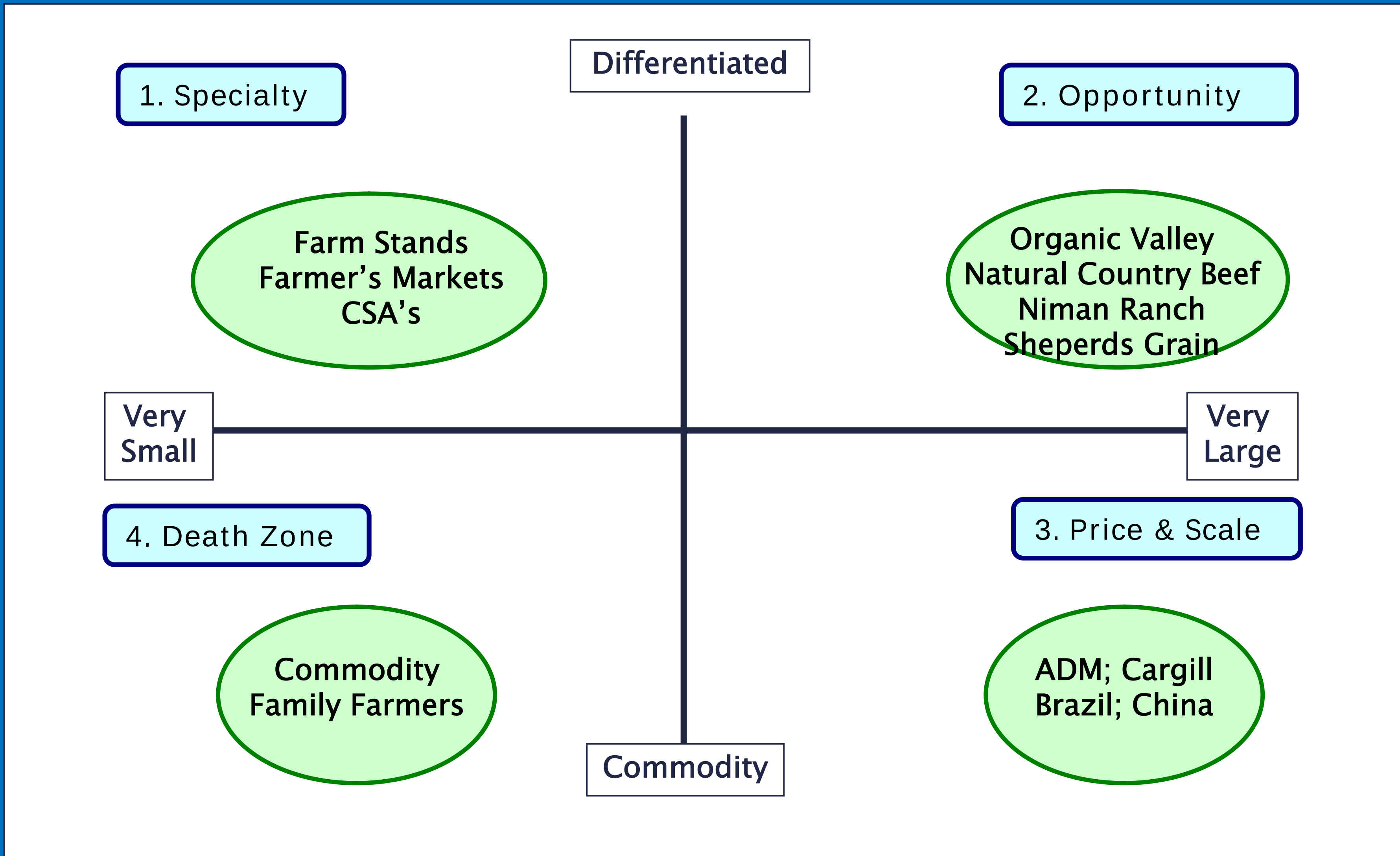
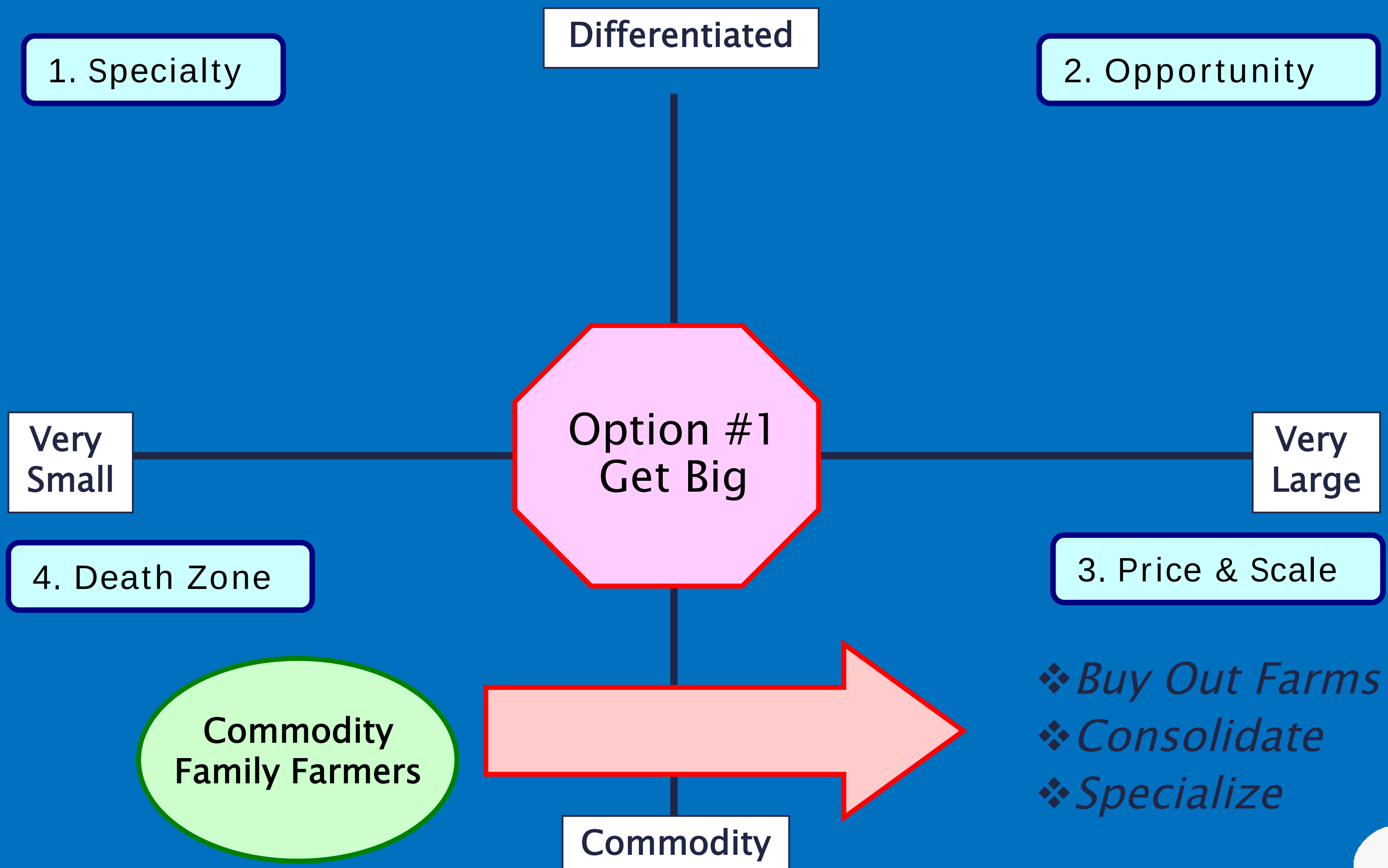
Agricultural Quadrants – Value & Scale



Examples of Participants



Option #1 – Get Big



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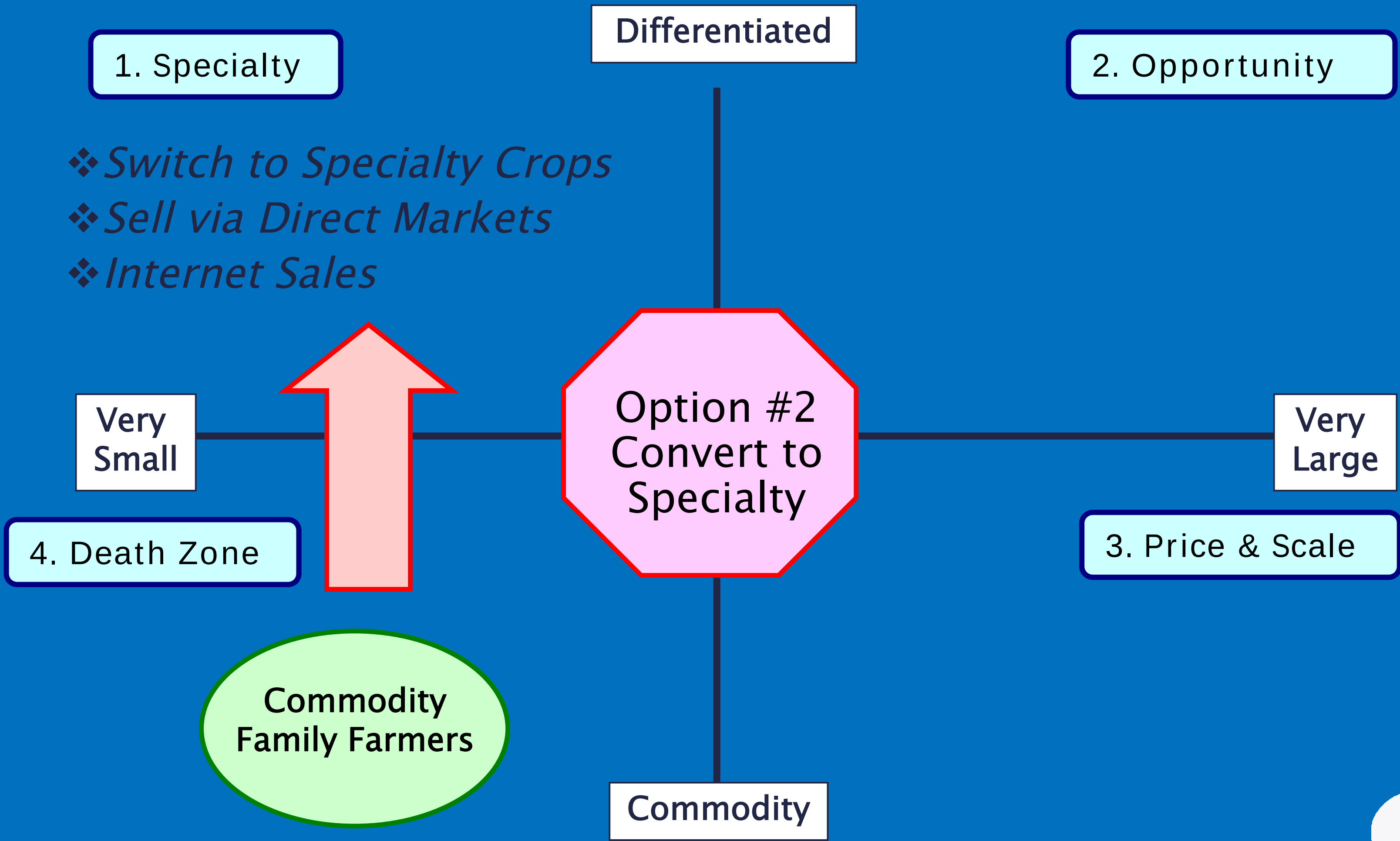
Option #2 – Convert to Specialty



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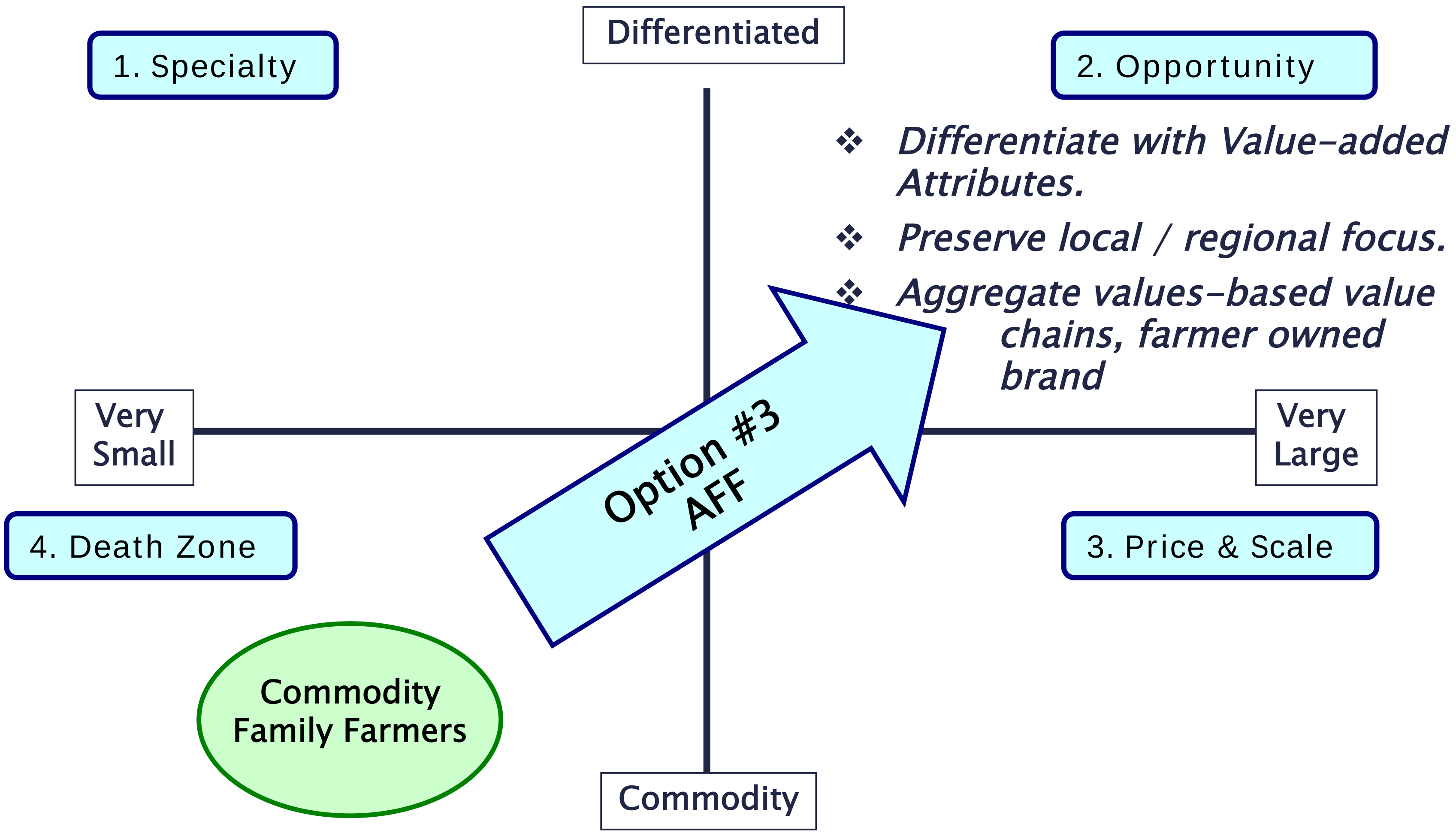
Option #3 – Create New Opportunity



What is a V-B Value Chain

- Partnership relationships among:
  - Farmers, packers/millers/processors and food service/retail
  - Supply Chain: Farmer is input supplier
  - VBVC: Farmer is partner

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Operating Examples

- Shepherds Grain
- Natural Country Beef
- Organic Valley of Family Farms
- Niman Ranch
- Red Tomato
  - Some success indicators

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Is It Realistic?

"Our dream, however, was to partner with the growers and succeed together. We would be there for them, and we wanted them to be there for us."

-- Ron and Arnie Koss, *The Earth's Best Story* (Chelsea Green)

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Realism in Context

"Yes, we paid growers more, and yes, this ultimately made Earth's Best more expensive, but this was the price of a fair reality built upon what we valued most and wanted Earth's Best to stand for: 'relationship,' relationship to the earth, to children, to growers, to employees, to investors, and to ourselves."

-- Ron and Arnie Koss

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Beyond the Market

- Redesigning the Farm for Resilience
- The Old School: Designing for maximum, efficient production for short term economic return. Assumes system stability.
- New School: Design for maximum adaptability. Assumes complex system behavior

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Resilience Thinking

"There is no sustainable 'optimal' state of an ecosystem, social system, or the world. It is an illusion, a product of the way we look at and model the world. It is unattainable . . . and yet it is a widely pursued goal."

-- B. Walker & D. Salt, *Resilience Thinking: Sustaining Ecosystems and People in a Changing World*.

All Systems Follow Recurring Pattern of Change

- Rapid growth
- Conservation/consolidation
- Release/collapse
- Reorganization

  -- Walker and Salt

Why "Industrial" Agriculture is Unsustainable

"contemporary resource management . . . attempt(s) to maximize one or a few desirable systems components at the expense of other species and systems functions---think agricultural or forestry monoculture . . . While apparently stable (it) creates systems that (are) …in pre-collapse mode"

-- William Rees, Thinking "Resilience"

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Opportunities

"Each iteration of the cycle provides opportunities for innovation" -- Rees

"Sustainable systems" feature:

--humanly manageable scale

--steady state economy

--feature diversity and redundancy

--cooperation instead of domination

--favor regional self-reliance

--closed nutrient cycles

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For more information

- Ag of the Middle as one new business model:
- Thomas Lyson, G.W. Stevenson and Rick Welsh (eds.) 2008. *Food and the Mid-Level Farm: Renewing an Agriculture of the Middle*. MIT Press.

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Questions?

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