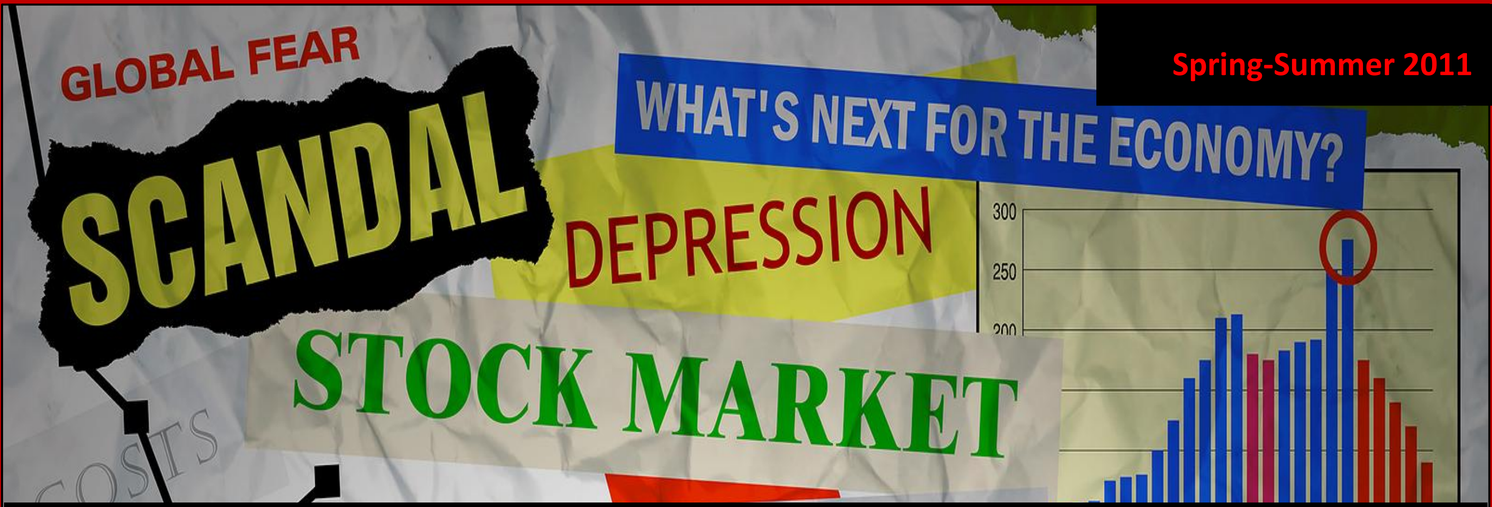
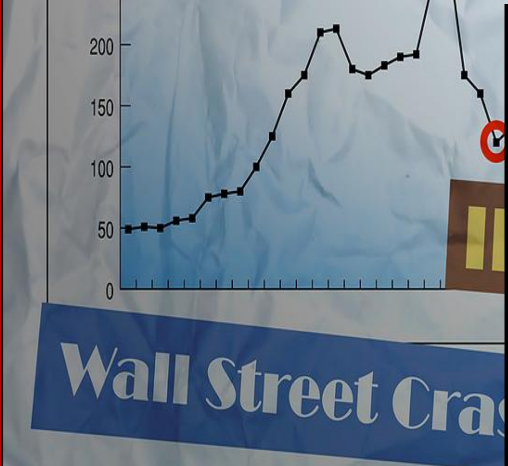
Spring-Summer 2011



The Global Economic Crisis:

Winning Business Strategies for Ontario Agriculture



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EPILOGUE

NOTE TO READER:

When SCIG submitted this report for AMI in late Spring 2011; we warned about the difficulties the World faced in digging out of the Great Recession. We were concerned with the possibility of a ‘double-dip’ recession and the consequences that could result, while other pundits held firm to the strength of the recovery. Many of those pundits have now fallen silent.

We are of the opinion that a 'double-dip recession' is all but a certainty. What remains to be seen is if the World can avoid a depression. Regrettably, for some nations this may not be possible.

For the vast majority of the World things will get worse, much worse, and it is time to prepare. This time Canada will not be able to escape as lightly as it did in 2008.

This is not good news, but farmers are a hard-nosed practical lot. They are not prone to self-delusion and understand that sometimes "bad things happen to good people."

Now more than ever before, we recommend that producers pay heed to the "Lessons Learned" section of this Report. Doing so might mean the difference between having a seaworthy business while others are leaking, taking on water, and in grave danger of going under which holds only one fate.

Undoubtedly, some will disagree with our assessment. Reading tea leaves has never been an exact science. We hope that we are wrong, but consider the facts.

The Congress and the Executive of the United States seems set in continuing in its self-destructive behavior that has resulted in the Government of the United States almost defaulting on its sovereign debt obligations. So severe is the political infighting and intransience that Standard and Poor's has taken the extra-ordinary step of downgrading the United States' credit rating, and maintaining that downgrading even after a temporary resolution to the Debt Ceiling Crisis was achieved.

In the European Union the risk of sovereign debt default spread to Italy, and may soon extend to France. Default contagion is in the air, and even temporary fixes today do not mean that a new crisis tomorrow can be averted with certainty. At no other time has the risk been greater that some members of the EU will either abandon or be forced to abandon the Euro. If this happens, the EU will see beggar-thy-neighbour economic policies amongst its member states, which may result in the dissolution of the EU as we currently know it.

Such a break-up will not be orderly or peaceful. This can also transpire very quickly. Doubters need only look to the rapid fall of the former Soviet Union and the East Bloc.

The current EU and American Crises directly led to the August stock market collapse. The crash resulted in over one trillion US dollars in lost wealth. These losses are real and they affect all aspects of the Global economy including average people's; incomes, savings, property values, and retirement prospects. This will have a profoundly negative effect on the prospects for Global economic recovery.

Perhaps the greatest concern is the fact that national governments have very few, if any, economic or financial tools left to combat the crisis. Interest rates are negative (when inflation is factored in). The policy of Quantitative Easing, namely printing money, is almost at its end life. Increased government spending or fiscal stimulus, is not a practical option. Governments the world over know that their scope for action is highly limited, and it is not unreasonable to suggest that politicians are frightened.

At times of extreme crisis countries turn inward and attempt to insulate themselves from external troubles. Nationalism and economic protectionism (if practical and possible) are the inevitable result. This does not bode well for Canada which is dependent on trade for its wealth and economic prosperity.

What does this mean for the farmers of Ontario and their families?

- Governments of all levels will not be able to assist financially Ontario's agricultural sector as they have in the past. Those sectors that are likely to get what limited assistance is available will have to prove that the assistance is merited and will yield economic dividends.
- The United States, as it heads into recession, will drag the Canadian economy with it. Recession will bring the usual negative impacts of reduced markets, more competitive markets and pricing pressures to Ontario agriculture in all sectors.
- Protectionist forces in the United States and the European Union are likely to rise, thereby restricting Ontario's access to those markets or exacting additional costs as industry players are forced to fight costly countervailing and anti-dumping trade actions.
- The Canadian dollar is likely to remain strong, thereby resulting in increased competition from foreign, namely American, agricultural producers in our domestic markets.

- Conversely, a weak American dollar, coupled with a need to find new markets will force more American producers into the international marketplace, thereby creating new and increased competition for Canadian and Ontario producers in those foreign markets.

In this environment it is important for Ontario producers to act quickly and aggressively to protect their competitive position both at home and abroad, and to capitalize on international opportunities. Some of this can be achieved on-farm. Much more can only be achieved collectively by farmers banding together to seize new market opportunities.

We at SCIG have great faith in the strength, creativity and resiliency of Ontario's producers and growers. However, the time has come for decisive and purposeful action. We cannot recreate the past, but we can capture the future, if we choose to act.

Business Intelligence Unit
Strategic Capital & Intelligence Group Ltd.
London, UK, August 2011

EXECUTIVE SUMMARY

The world's economies have been on a wild ride in the last four years and the effects have been staggering for many of Ontario's agricultural producers and growers. Old certainties have vanished, markets have shifted, processors have closed or amalgamated, costs have fluctuated, and confidence has been shaken.

When the 'Housing Bubble' burst in the United States, it stripped hundreds of billions of dollars out of the US economy alone, and set off the greatest loss of capital in the world's history. This immediately led to what has been termed the 'Great Recession' of 2008-09.

Massive government interventions prevented further damage from occurring, but have been unable to restore the economies of many nations (particularly the US and in Western Europe) to full health. Widespread loss of consumer and investor confidence, and weak government finances may combine to see inflation or another recession, bringing on a worse crisis. It may be years before the good times return.

Older ways of doing things may not be so sound, and some farmers are looking to find ways to adapt to changing circumstances. 'Crisis' might sound like too strong of a term, but the dangers of the last four years were very real. Where there are dangers, there are also opportunities.

The world is changing, and it is changing quickly. But nobody can accurately predict what is coming. However, it is best to be prepared.

Some of Ontario's producers and growers are coping well enough with the changes that have come so fast in the last few years and a few are thriving in the changed environment. What are they doing right? What are the best practices when there is a murky future?

Ontario's Agricultural Management Institute (AMI) engaged Strategic Capital and Intelligence Group Ltd. (SCIG) to look at the best practices of some of Ontario's producers and growers, and then provide simple, pragmatic advice on how to weather the shocks that may come, and how to prosper.

SCIG looked at the new emerging conditions that frame the Global and North American economies, and how they might affect different sectors of Ontario's agricultural community. We then selected 12 producers and growers – many of whom were recognized by their peers as being successful in coping with the new conditions; a few are running operations that have been actually growing under present conditions.

The selected producers or growers were interviewed and asked about their concerns and what conditions they thought were the hardest to cope with. They were then asked about their strategies and practices that they had undertaken to deal with the situation.

There are a number of common elements between a fast growing grape-grower on the Niagara Peninsula, a father and son team who run orchards in Simcoe and Huron counties, a grain farmer outside Ottawa, and a potato farmer from Kitchener Waterloo – all of whom are building expanding enterprises that go far beyond the gates of their farms.

There was a major hog producer in the eastern tip of Ontario and a cattleman near Lake Huron, who both found ways to work around the loss of access to the American market that they used to enjoy; and both of whom took pleasure in new business arrangements.

There was a couple running a goat-dairy, setting aside money to find new genetic lines in France to improve their herds and explore new markets; and a greenhouse horticulturalist who has turned into an expert on fashion and robotics.

Few farmers are as saddled with debt as dairy cow operators are, but one had a number of pragmatic ways to ensure he keeps his herds in order. There was the greenhouse vegetable grower working on exploiting new sources of customers and beating energy costs in an innovative manner.

Organic farmers face a shortage of qualified suppliers and buyers who understand their specific needs so as a result one Ottawa valley farmer went up and down the supply chain to meet the requirements of his family and colleagues. SCIG also interviewed a highly successful canola farmer who leases most of his land from urbanites who are delighted to let him.

There were lessons to be learned from all of these producers and growers. SCIG noted the common ‘best practices’, the innovative approaches, the new marketing techniques and the like and summarized these observations at the end of every interview section. This was followed by an analysis of the lessons that were learned and a discussion of how they might be employed.

Our two initial observations were: 1) best practices of the industry remain identical which is to have a passion for the work, rely on family members, and pay close attention to finances. In no other field of work are these three factors so important as they are in agriculture. And 2) there is no single one-size-fits-all universal model for a solution to the stresses and challenges confronting the agricultural community. The diversity of products, of geography, of size of farms, and of local conditions, and dozens of other variables prevent one single solution from being adoptable by every producer and grower.

There are, however, a variety of practices that come strongly recommended – and which have worked in varying degrees for the producers and growers interviewed in this study. Among them:

- Have a business plan – not an idea or a few notes – but a valid planning document that results from careful analysis. Such a plan can be used to better secure financial support, determine where success is being achieved and where it is not.

- Locking in on low interest rates, maintaining liquidity, the importance of cash flow, and of keeping one's banker closely informed of your farm operations – turning them into a champion for your financial needs, not a critic.

- Never assume customers will always be there. Know the buyers customers better than the buyer does, integrate up and down the supply chain, use the oldest marketing technique – word of mouth – in conjunction with the newest technology –the inexpensive and readily accessible social media.

- New technologies that might be applicable, the advantages of leveraging somebody else's sales force; keeping the flexibility to be innovative, and looking for new ways to improve efficiency.

All of these strategies, and a great many more, are currently being employed by some of Ontario's most successful producers and growers. There may be another economic downturn or there may be a recovery. Old markets may return, or new ones may have to be sought out. In this regard, there is a new role for commodity boards to seek real contractual agreements which buyers in China and elsewhere. Regardless, the best practices that have brought some farmers through the last few years are probably the soundest ones for the years to come.

SCIG LTD

Strategic Capital & Intelligence Group Ltd. ("SCIG") is an international consulting firm that specializes in securing commercial agreements for North American and European companies (primarily in the hard and soft commodity sectors) looking to either enter or expand their presence in the People's Republic of China ("China"). Such agreements principally take the form of commercial supply agreements (product off-take), debt or equity financing agreements or joint venture agreements with Chinese investors or state-owned enterprises ("SOE"). SCIG provides a full spectrum of services including:

- providing access to high-quality business networks ("*guanxi*");
- customized business and market intelligence;
- identification of, and introduction to, potential Chinese buyers or partners;
- positioning and packaging of potential commercial opportunities;
- comprehensive deal negotiation and structuring; and
- post-deal implementation, management and support.

SCIG maintains a highly sophisticated business intelligence unit that supports its clients' business needs and endeavors as they attempt to expand into new markets and business streams, or attempt to maintain their market position in the face of fierce and growing international competition and business uncertainty. Our Business Intelligence Unit provides customized:

- industry sector competitive analysis;
- future trends and market risk assessments;
- political and economic risk assessments (Global and regional);
- defensive and offensive industry and corporate strategy development;
- crafting of market development and penetration strategies; and
- identification of strategic partners, alliances and business opportunities.

The majority of our clients have come to us during times of great upheaval and change

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PROJECT DESCRIPTION

WHAT SCIG WAS ASKED TO DO

The Agricultural Management Institute commissioned SCIG to write a report that would provide Ontario's agricultural producers and growers with practical, pragmatic and implementable advice on how they can quickly modify their current business practices in order to not only weather but if possible prosper, in the current business climate both globally and within the North American context.

WHAT SCIG DID

Our approach was divided into the following six stages.

STAGE 1: SELECTION OF BUSINESS CONDITIONS

SCIG first had to determine the Global and North American business conditions that negatively impacted Ontario's producers, growers and by extension agri-businesses .

Additional factors that were incorporated into the Report include: trade protectionism and the movement towards managed trade; currency wars; sovereign debt crisis; government stimulus vs. austerity; restricted commercial credit; the potential for a double-dip recession; continued weakness in consumer demand; petro-chemical costs and the like.

The selection of the Global and North American business conditions was perhaps the single most important determinant. In order to minimize potential selection bias, SCIG's selected business conditions based on the International Monetary Fund's ("IMF") publication entitled *World Economic Outlook, October 2010*.

STAGE 2: WORKSHOP: SELECTION & CONFIRMATION OF BUSINESS CONDITIONS (GLOBAL & NORTH AMERICAN)

The briefing documentation and draft hierarchy of critical business conditions developed in Stage 1 was presented to and discussed with the Executive Committee of the AMI Board of Directors in a half-day workshop.

The Executive Committee, with the participation and assistance of SCIG, selected the agricultural commodities groups and the business conditions to be the focus of the Report and the case studies.

Our approach incorporated the selection of the six business condition groupings in a manner that cuts across the various producer and grower segments in Ontario, specifically:

1. Red Meats:
    a. Beef;
    b. Pork;
2. Grains & Oilseeds:
    a. Wheat & Corn;
    b. Canola;
3. Supply Managed Commodities:
    a. Dairy;
4. Fruits & Vegetables:
    a. Apples, Sour Cherry, Asparagus;
    b. Potatoes;
    c. Vegetable Greenhouse (seedless cucumbers, peppers & tomatoes);
5. Grape & Wine:
6. Horticulture:
    a. Plants & Ornamentals;
7. Alternative/Specialized Commodities:
    a. Dairy Goats; and
    b. Organic Vegetables.

The workshop determined the six business condition groupings and the objective was to assign at least one grouping to each of the producer and grower segments listed above.

STAGE 3: SOLICITATION OF PRODUCER AND GROWER CANDIDATES FOR CASE STUDIES THROUGH COMMODITY BOARDS

SCIG approached the relevant commodity boards or associations to solicit from them a list of producers or growers that would be prime interview candidates for the purposes of this Report.

SCIG utilized this "expert informant" approach in order to acquire a listing of the top producers and growers as measured by "perceived-operational-success". Where producer or grower information could not be acquired from the respective commodity board or association, SCIG used publicly sourced information to determine a listing of producers and growers that were recognized leaders.

SCIG approached the identified producers and growers in conjunction with the commodity board or association, to request their participation in the Report. Care was also taken to secure a selection of small, large, specialized and more general producer and grower participants.

STAGE 4: PRODUCER AND GROWER INTERVIEWS

The twelve identified producers or growers were interviewed by SCIG, typically with an on-farm visit, teleconference or both. Producers and growers were interviewed and asked a series of standardized questions in addition to other more general discussion that allowed the producers and growers to discuss freely their views, opinions, and offer their advice and suggestions.

STAGE 5: TWELVE CASE STUDIES

The producer and grower interviews led to the twelve case studies in this Report. Case study presentations have been standardized in order to achieve maximum cross-comparability amongst the case studies and the condition groupings. The case studies have concentrated on those strategies that can be incorporated by other producers and growers engaged in the same production activity. Confidential and proprietary information has been excluded from the case studies in order to protect the business interests of the participants.

STAGE 6: "LESSONS LEARNED"

Strategies employed in a particular commodity sector may be successfully applied in a non-related commodity sector. SCIG examines these strategies in the "Lessons Learned" section of the Report. SCIG's Business Intelligence Unit also brings to light other issues that were not raised or addressed but that, in SCIG's professional opinion and experience, is nevertheless, important for producers and growers to consider as they attempt to manage through these changing times.

OVERVIEW OF GLOBAL AND NORTH AMERICAN CONDITIONS

SETTING THE STAGE

The next few years will be filled with challenges for Ontario agriculture. What this really means is that Global political and economic conditions (which together frame business conditions) are going to be more fluid and changing than they have been in many decades. The certainties that defined much of the world since 1945 are breaking down, and some long dreaded crises are emerging sooner than many experts expected.

Yet some fundamentals remain unchanged. People need to eat and they want their food sources to be inexpensive, reliable, and safe. There will always be markets for our goods. The Canadian economy is better off than many others around the world, our levels of government are more stable than many, our supplies of energy, capital, and most essential commodities are secure.

The best practices of many years are not as certain as they used to be, Ontario producers and growers will have to be more flexible and responsive than the past demanded. As markets and supplies change, there will be new opportunities to pursue and new pitfalls to avoid.

Some of the conditions that are forcing change around the world have been obvious for a long time.

In general, the US recovery will be long, slow, and complicated. The situation in Europe and Japan is even worse. There is a risk of another recession (the "double dip"); and the economic fundamentals of most of Canada's traditional markets and trading partners are in bad shape.

Emerging markets are in better shape, but the capital they need to grow is in short supply or subject to restrictive currency and exchange controls.

To compound matters, oil and food prices are the highest they have ever been and threaten to impede the recovery, and are already generating political instability overseas.

How did we get into this situation? What are its features? And what does it mean for Ontario's agricultural producers?

SUMMARY OF CONDITIONS

In presenting this Report, it was decided to discuss a number of negative business conditions having determined first whether they were mostly Global or North American problems. Once the writing of this Report had commenced, some other background conditions presented themselves and also merited inclusion.

This is a foundational section that builds a common level of understanding which is required to fully contextualize the findings that follow in the Lessons Learned and Case Study Sections.

BACKGROUND CONDITIONS

- Growing Populations
- The Food Crisis
- Peak Oil and Higher Energy Costs
- Fallout from the Housing Bubble

GLOBAL ECONOMIC CONDITIONS

- High Public Debt
- Sovereign Responsibility/Sovereign Debt
- Volatile Financial Markets
- Volatile Commodity Markets
- Persistent Output Losses
- Substantial Excess Supply
- Low Money Supply
- Quantitative Easing
- High Unemployment

NORTH AMERICAN ECONOMIC CONDITIONS

- Weak Consumption and Investment
- Volatile Currency Markets
- Vulnerable Banking Systems
- Diminishing Fiscal Stimulus
- Deflation
- Collapse in Trade
- Protectionism/Non-Tariff Trade Barriers
- Weak Domestic Demand
- Low Consumer Confidence

BACKGROUND CONDITIONS: GROWING POPULATIONS

When Eugene Whelan, the longtime Liberal Minister of Agriculture, was President of the World Food Council and the Canadian Ambassador to the United Nations Food and Agricultural Organization (FAO), he often talked about the situation the world would face in the middle of the 21st Century. It was obvious that the world's food production was not keeping pace with population growth and at some point a crisis would occur.

What Ambassador Whelan and many FAO officials did not expect were the following developments. Around the world, more liberalized trade and increasing economic freedom would lead to improved economic growth in many nations. More and more societies urbanized which meant that many women entered the work force and had better chances to become educated. In almost all cultures, this means they have fewer children. The predictions of a Global population of over 11 billion people by the middle of the 21st Century have fallen off; median predictions from the UN and the US now see a peak total population of around 9 billion by 2050, and some estimates anticipate that human numbers will peak at 7.3 billion in the late 2030s, and slowly decline after that period.

Two of the most reliable yardsticks of prosperity have been life expectancy and GNP/Capita. The median life expectancy for all of humanity in 1900 was around 30, today it is around 65. Where the most rapid growth in life expectancy had been in Western Europe and North America in the first half of the 20th Century, most of the rest of the world (barring Africa and failed states) have caught up in the last twenty years. Europe and North America also led the way in GNP/Capita, but much of the rest of the world is rapidly catching up.

What the FAO forgot was that prosperous people want more on their dinner plate. Growing prosperity in much of what used to be called the Third World has accelerated the demand for food. Nowhere is this more obvious than in China and India. In China, before the economic reforms of the late 1980s, supermarkets, convenience stores and the like were virtually unheard of; this year such stores in China expect to sell US$370 billion worth of food-products to Chinese consumers. Demand, particularly for animal feed, is going to lead the list, but other foodstuffs are experiencing strong growth in demand. FAO estimates anticipate the Global demand for meat alone will be six times what it was in 1961.

The explosive growth of both China and India's populations and economies is also matched to heavy urbanization around prime crop growing areas, and increasing shortages of water. While both countries have substantially increased their crop yields, neither is a net exporter of food anymore (although China's increasing role as a processor of food grown elsewhere clouds import & export statistics). The demand for food in both countries has nowhere to go but up.

Other nations, although smaller than China and India, are also starting to experience rapid and sustained economic growth. Brazil, Indonesia, Mexico, the Philippines, Poland, Thailand and Vietnam are among them. Some of these countries were net exporters of food, now they may evolve also into net importers as their economies develop and mature.

Set against this is a steady increase in food production; new strains and techniques are constantly appearing. Even with the growth in population slowing, crop yields have been slowing too – especially for wheat and rice. The fruits of the 1960s Green Revolution are tapering off, and the Global effects of higher input and labour costs are being felt in agricultural productivity for many farmers, getting a reasonable profit is harder to accomplish.

Arable land is often being strained by agricultural use. Erosion and degraded soil chemistry might be fixed in the Developed World, less so in the rest of the world; and water is nowhere as abundant as it is in Canada – but it still takes 1,150-2,000 litres of water to produce a kilo of wheat, and 16,000 litres for a kilo of beef.

Fertilizer use goes some way to solving soil degradation but fertilizer prices are rising as phosphorus becomes scarce and fuel prices, particularly natural gas which is used to make synthetic fertilizer rise. If we are to feed the world, food prices will have to rise more than input prices; and inputs will have to be considered more carefully. The era of ever declining food prices is over.

BACKGROUND CONDITIONS: THE FOOD CRISIS

"Civilization is only two missed meals deep."

Jerry Pournelle, US author and columnist

In the first five months of 2008, food prices reached unprecedented heights, essentially 115% higher than they had been in 2004 around the world. Particularly high demand on grains and cooking oils sparked food riots and violent protests in some 35 countries. This sparked a dramatic intervention by the US, UK and China (domestically) to stabilize prices, which then dropped to a level about 40% above the 2004 benchmark.

During 2009 and 2010, prices climbed steadily back to where they were in the peak of 2008, and then continued to climb. In February 2011, prices peaked at almost 140 % higher than the baseline of the index, essentially double where they had been in the summer of 2010. This was the real cause of the unrest in the Middle East, beginning in Tunisia and then Egypt, followed by civil war in Libya, Syria, Yemen and elsewhere.

Troublesome nations like Iran are nervous about an even more unsettled citizenry than usual; and the typical reaction of other troubled Middle Eastern elites is to provoke confrontation with Israel as a distraction. The risk of a major war in the Middle East is climbing, which is combining to keep oil prices high – and may drive prices higher still if one actually manifests.

The main driving element for higher food prices is a combination of the Globalized market, higher demand, and commodities speculation. Food production has become incredibly intricate with the stress on maximized production at the lowest cost, there is now little room for major error. While farmers implicitly understand this on a micro level, the macro implications are just as disturbing.

The shipment of so much food so quickly globally has ushered in a virtually universal disease and pest environment. In 2001, illegal imported sausages from Mongolia caused a major outbreak of a new strain of Hoof & Mouth disease in Britain that resulted in the culling of 10 million animals and a loss of US$16 billion to the British economy. In 2007, an African fungus essentially wiped out most of the North American bee population.

The rapid spread of UG99 Yellow Rust from Uganda to northern Africa, the Middle East and Central Asia in four years is another case in point of the effect of globalization on one small mutation in what had been a long vanquished problem. Farmers in areas where the fungus has spread have lost 40% of their wheat crops.

The other aspect of the globalized market is that financial analysts have begun paying close attention to every report of poor weather, parasites and pests, and every estimate of production around the world – resulting in immediate speculative commodities transactions. Minor news items and speculation about weather patterns are sparking immediate Global price hikes on many crops.

Both results have occasionally forced governments to act defensively. The 2008 food prices sparked export restrictions of rice and wheat by several major producing countries and a few developing nations have begun stockpiling food. As of February 2011, a number of Western nations have started doing the same again.

In most years over the last two decades, Global consumption of food has outstripped production, with the net effect that overall stockpiles have been slowly diminishing. In the US, stockpiles of corn, soybean and wheat are all slightly less than they were last year and demands in advance of the harvesting of this year’s crop are heavier than ever. Many nations are finding it harder to maintain a strategic grain reserve of 3-4 month supplies; even the US strategic grain reserve shrank to 2.7 million tons of wheat in early 2008.

With regard to this year's events in the Middle East, there are essentially three triggers to a revolution. The first is the long-term grievance that may be held for some years. Typically, these have often been government corruption and inefficiency. The second trigger is the presence of a group with the ambition to start a revolution. In the Middle East this has been the combination of a frustrated Middle Class, youth with diminished expectations, and the Islamic Fundamentalists. The third trigger is usually the condition that gets people afraid or angry enough to start protesting. More often than not, it has been fear of hunger.

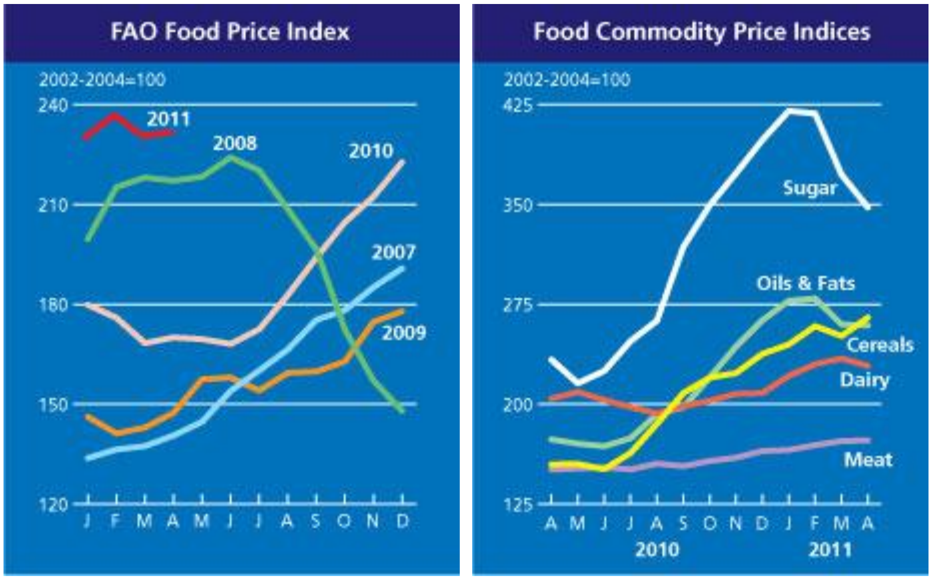
The high price of food underlies the up-risings in Tunisia, Egypt and the civil war in Libya. It has also sparked deadly violence in Algeria, Bahrain, Jordan, Iran, Iraq, Morocco, Oman, Saudi Arabia, Syria, and Yemen. Other countries in Africa, Latin America and Asia are apprehensive about civil order.

To Canadians, who usually pay less than 10% of their annual income on food, a 50% price rise is troubling but generally still manageable unless one has experienced unemployment or other income loss. In those countries where 25% or more of a family's annual income goes towards food, the alarming rise in prices causes discernable anxiety and anger.

Rising prices for commodities do not invariably mean greater profitability, sustainability or viability for Ontario's agricultural producers. If anything, it represents an additional risk – particularly in terms of prices for animal feed for beef, pork, and poultry producers.

The indirect risk for the agricultural sector also comes out of the effect the food crisis is having on energy costs. Unrest in the Middle East invariably means higher costs for oil and natural gas. Both inevitably mean higher production costs for the world's food producers.

FAO FOOD PRICE INDEXES, MAY 2011



BACKGROUND CONDITIONS: PEAK OIL AND HIGHER ENERGY COSTS

On an average year, 3-5% of all natural gas produced (about 1-2%) of the world's energy production, is fully utilized for the production of 100 million tons of nitrogen fertilizer.

Beyond that, modern farming techniques expend fuel for ploughing, planting, spraying pesticide and fertilizer, and for harvesting. Economists have found direct correlations between the price of fuel and farm profitability, most farmers wonder why anyone would ever need to research such a question when the connection is self-evident.

Modern agriculture needs an ample supply of inexpensive fuel. The problem is that oil is not cheap anymore.

The matter of exact timing is still being debated but "Peak Oil" -- that point where the Global discovery of new sources of oil is outstripped by production – will have occurred sometime between 2004 and 2015. While demand is not outpacing production now, in a few years this will be the case. The days of cheap oil have long been over. Production costs for both oil and natural gas have nowhere to go but up.

There are as yet untapped reserves of oil and fields that are far from being fully exploited, but the easily available light sweet crude from the Middle East (which has the lowest refining costs) are not just in heavy demand but it is clear that some fields will soon be mostly depleted.

The newer sources of oil and natural gas are all more expensive to develop. These include deep water wells off the continental shelves. As was seen in the 2010 British Petroleum accident in the Gulf of Mexico, accidents this deep are very difficult to control and the environmental clean-up is very expensive.

In 2007, the world had 1,317 trillion barrels of conventional oil in existing reserves – 42 years worth of oil remaining at 2007 consumption rates (31.1 Billion barrels of oil a year). The world also has between 2.8 and 3.3 trillion barrels locked up in shale oils (62% of which appear to be in the US); and more remains to be found. However, oil shale is very expensive to refine: Start up costs in a new project would mean generating US$80 to US$100 alone per barrel, although the price should eventually fall by half. Oil shale also needs to be extracted by open-pit mining.

Canada's Tar Sands also constitute a reserve of 1.7 trillion barrels of oil; but only about 10-15% of it is economically recoverable with current prices and technologies. Like oil shales, oil from the tar sands is expensive to process and carries a high environmental price.

In 1996, crude oil was selling for US$20 per barrel; the price reached US$147.10 in 2008, dipped again to US$40 in mid 2009, and is just coming off a high of US$126.65 in early April 2011. As the peak oil point is finally confirmed, we should not expect to see oil prices stay much below US$100 often, or for very long, anytime in the next few years.

The ethanol diversion may prove to be just that – an economic diversion. Brazil's experiment with sugar is proving economically successful (ethanol plant can switch in seconds to making crystallized sugar for human consumption, and back again). American ethanol production is consuming 40% of its corn crop and only yielding 8% of its fuel requirements. This is thanks to massive subsidies and technological inefficiencies.

Even when extraction technologies for oil sand and oil shale mature, and prices pull back, oil will still probably stay around US$50 to US$60 (at present day prices) per barrel. For agriculture, the days of inexpensive fertilizers and cheap diesel fuel for farm machinery are over. This will result in a permanent upward adjustment in agricultural production costs, not to mention the additional costs associated with transporting agricultural products long distances.

BACKGROUND CONDITIONS: FALLOUT FROM THE HOUSING BUBBLE

Decades of government deficit spending in the US and EU, tied with low interest rates has resulted in high debt loads. This became a reciprocating cycle as the US Federal Reserve, and its counterparts in the EU, sought to keep interest rates low to limit the costs of the bonds they issued to cover their debts. This did little to discourage continued deficit spending.

Financial institutions – particularly in the United States – also behaved recklessly. The low interest rates encouraged consumers to over-reach themselves and financial institutions abetted it. Deregulation of US banking in 1999 facilitated the creation of new financial instruments based on mortgage-backed securities made up of subprime mortgages extended to US consumers. Even people on welfare were encouraged to buy houses and only needed to cover interest payments. Housing prices rose with the demand, which further encouraged even more people to buy houses they couldn't afford. Sub-prime mortgages were bundled up with other financial instruments and treated as assets to be swapped among the World's financial institutions.

Illusions of easy wealth for all and expectations of money for all grew until the economic reality burst the housing bubble.

According to the January 2011 findings of the US Financial Crisis Inquiry Commission, the crisis was avoidable and was caused by: widespread failures in financial regulation, including the Federal Reserve's failure to stem the tide of toxic mortgages; dramatic breakdowns in corporate governance including too many financial firms acting recklessly and taking on too much risk; an explosive mix of excessive borrowing and risk by households and Wall Street that put the financial system on a collision course with crisis. Key policy makers were ill prepared for the crisis, lacking a full understanding of the financial system they oversaw; and there were systemic breaches in accountability and ethics at all levels.

The findings are entirely accurate except that they may not have been strong enough in their condemnations. Legislators had slackened the reins on Wall Street in the late 1990s and failed to curb them despite repeated warnings between 1999 and 2008. Governments' addictions to deficit spending have severely hampered all ability to cope with crisis and the recovery from it.

The result was the loss of over US$600 billion dollars from the net worth of US consumers and financial institutions. The collapse of mortgage backed securities caused enormous losses to many European banks and precipitated what has now been termed "the Great Recession" and history's greatest capital loss.

This inevitably lead to a loss of confidence in the markets; economic slowdowns that bolted into recession and bordered on depression, and a major surge in unemployment rates around the world.

European Central Banks and the US Federal Reserve Bank strove to bail out endangered financial institutions that were about to collapse, and attempted to stave off a economic depression. With so much capital evaporating and many governments already facing credit shortages after years of deficit financing, they turned to a neo-Keynesian tactic of 'Quantitative Easement' on an unprecedented scale.

Quantitative Easement involves Central Banks printing money and then using that money to purchase the Federal Government's new Treasury bond issues thereby fueling government expenditures. This does create fiscal stimulus but it does so at the cost of increasing the government's total debt burden which will ultimately have to be paid for through higher taxes or reduced future government expenditures. Put simply, today's generation is taxing future generations' incomes.

The measure has not instilled confidence in investors and the economic recovery in many countries has been the slowest since the Great Depression of the 1930s. Normally, in Western Europe and North America since the Second World War, most economies recover from a recession in about two years. Canada has recovered from the 2008 slump, the United States and many other nations have not managed it yet and may not for another few years – barring a 'double dip' return to recession, stagflation, inflation, or another major crisis.

The IMF in April 2011 expressed an expectation that the recovery will continue to be slow, driven by the emerging economies, and that the US would be unlikely to make a full recovery until 2014 – provided circumstances remained steady. Given the stalemate between Democrats and Republicans in the United States over the appropriate action moving forward a full American recovery by 2014 is looking unlikely.

GLOBAL ISSUES

GLOBAL: HIGH PUBLIC DEBT

The totals of debt---as an expression of the per-capita debt (every resident's individual share of his or her governments' indebtedness) or as a share of the gross national product--- owed by all levels of government in the US, Western Europe and Japan have never been higher.

What is disturbing is how closely related some of the world's top performing economies are to some Developing World nations. All of these countries must issue bonds to cover debt, but investor confidence in the debts of once powerful economies like Japan, Iceland or Singapore is at a low ebb. Governments – like that of the US – are taking on vast amounts of debt that must be repaid at some point in the future. The critical question is how long will the financial markets remain confident in government's ability and willingness to repay those borrowings? Equally important, how long will governments continue to remain true to their word that the debt will be repaid? Greece is a prime example of a government having over-spent, over-borrowed, and under-taxed that now is facing social unrest as it attempts to implement austerity measures. These measures are being demanded by the IMF and the European Union which have cobbled together a coalition-of-the-financially willing to prevent a European wide (and likely Global if it came to it) financial melt-down. What happens when financial markets, and everyday people, reach their limit and are no longer able nor willing to support the current status quo?

When that limit is reached, some combination of inflation, stagflation, stringent austerity programs, or political unrest is highly likely. The potential for all of these conditions is running strong, even in the United States.

GLOBAL: SOVEREIGN RESPONSIBILITY/SOVEREIGN DEBT

Public debt owed by national governments (as opposed to state or provincial governments) constrains the ability of that government to exercise its authority. Social programs, defense, border-security, diplomacy, trade missions all become seriously weakened as a government becomes more indebted.

Country	Public Debt as a % of GNP (2010)
Japan	225.8
St Kitts and Nevis	185.0
Lebanon	150.7
Zimbabwe	149.0
Greece	144.0
Iceland	123.0
Jamaica	123.2
Italy	118.1
Singapore	102.4
Belgium	98.6
United States	58.9 (36th highest in the World)
Canada	34.0 (86th in the World)

Countries like Portugal, Iceland, Greece, and Spain –collectively referred to in the financial community by the unflattering abbreviation "PIGS" – have become so indebted that major programs have to be slashed. In Greece, this has already led to violent rioting (including a scene where a mob set fire to a bank, killing three employees as they tried to escape). Rioting has continued in Greece. In the UK, where stagflation is already beginning, immediate government cuts sparked a violent riot in London and more may follow.

Greece is now at the stage where the government is selling off some of its primary assets, including the national telephone system and its power generators to private interests.

Other countries could soon face the cancellation or reduction of social programs. The United States, even back in 2001, was expressing doubts about its ability to go forward with Social Security programs and in Canada serious questions are being raised about the sustainability of government programs including healthcare, education, social services and agriculture. As the fiscal pie gets smaller, the battle will increase in society as to who gets a wedge and who must do without. Agricultural producers in Ontario must come to terms with the likelihood of governments that are no longer willing to extend financial aid and assistance in the future.

Countries in a severe debt crisis endanger the World's entire financial system, creating a higher risk of inflation and further tightening of an already stringent money supply while encouraging investors to immediately sell government bonds drawn on other weak states. One deep worry is of a cascade of failures as the default of one country might provoke a catastrophic situation.

The world has seen a sovereign debt crisis before; when in the 1970s and 1980s numerous countries unilaterally defaulted on their foreign debt. At the time, those countries that defaulted were principally under-developed and developing countries. While not pleasant, the global financial institutions such as the World Bank, IMF, and large Western governments were able to restructure the debt, including the outright forgiveness of some debt. Banks also had to write-off some of that debt, and restructure other portions. The only difference between then and today is in terms of scale and scope.

Today Western industrialized countries are on the financial ropes and there is not an international backer(s) big enough to stop-gap the system should it fail.

This is why governments are pursuing financial practices that at any other time would seem entirely unthinkable. Every government is desperate to keep the global economic system, and the financial system, working. Governments are hoping to maintain some level of investor and consumer confidence, for fear of a systemic collapse. Governments are also praying that the economic system 'reboots' itself and becomes once again self-sustaining, thereby allowing governments to ease off of the recent extra-ordinary policies that they have pursued. The Global game plan is economic survival, while attempting to minimize the negative forces and the beggar-thy-neighbour pressures of protectionism, which in turn seed civil and social unrest.

GLOBAL: VOLATILE FINANCIAL MARKETS

Debt-ridden major countries like the US, UK, Japan and others need to sell bonds to finance their current operations. Thus, they need to keep their bonds attractive to buyers but they also need to keep interest rates as low as possible to avoid further debt. They also need to avoid incurring economic stagnation as their economies fail to grow or shrink. And they need to pay down their debt.

What makes this juggling act even more difficult is that with so much of the remaining available capital tied up in bonds, governments have had to increase the money supply which increases the risk of inflation and stagnation, both of which would increase their debt.

Investors are uneasy about the ability of heavily indebted countries to pick their way out of the situation. Thus, investors are less likely to buy bonds, invest in an indebted country's domestic industries, and more likely to sell bonds they already hold and invest their money elsewhere.

This, among other factors, also explains the current high price of gold and the commodities speculation that is driving up oil, raw material and food prices around the world.

At an April 2011 meeting of the IMF in Washington; some of the world's strongest developing economies rejected a plan to help place controls on the flood of capital heading into their nations. They expressed resentment of the low interest rate policies of the Western nations and any attempt to curb the hundreds of billions of dollars that have entered their markets since 2008.

GLOBAL: VOLATILE COMMODITY MARKETS

For many investors, one of the safest places since 2008 has been commodities trading. This is one of the few activities that currently allow short-term profits. However, the stampede in this direction has helped to raise the price of oil, key minerals and grain. This has interfered with the economic recovery and added to individual hardship in many countries.

Moreover, the high price of fuel and food in particular has been a direct causative factor in the increasing political instability in the Middle East, which has the added effect of driving up energy prices – which in turn drive up food prices still more, which will amplify the danger of more political instability. Commodity markets have always been twitchy, and have been known to overreact to bad news. In today's Globalized media market, the herd mentality and reactions to news cause even stronger reactions than was the case a decade ago. However, the constant upward trend is also a certain indicator that the market knows these key commodities are in general short supply as more nations become industrialized and generally more prosperous. In more developed nations, like the US, consumers are afraid of the inflationary effect generated by commodity price hikes and even blame their Central Banks for generating the cash to allow investors to speculate on prices.

The main effect has been a rise in input expenses for Canadian agriculture, especially fuel prices; with attendant increases in electricity bills, animal feed, machinery costs, and so on.

GLOBAL: PERSISTENT OUTPUT LOSSES

Conventional measures for determining the end of a recession is to pronounce that the recovery was complete when the economy returns to its pre-recession levels. This is often premature and seldom accounts for the real losses experienced in an economic slump.

By way of analogy, think of an unemployed man who has not only lost his wages during his unemployment, but also the increase to his income through raises, bonuses and promotions he might have received if he hadn't been laid off. Multiply the effect by millions of citizens to realize the effect on a national economy.

The US, Japan and many European economies have not only lost against the measure of where their economies were in 2007, but they have also lost four years of the economic growth they might have reasonably expected. Recovery to pre-recession levels still means an overall loss to their gross national products. A full recovery means reaching the point where their economies should have been, had the recession not occurred. In the US, assuming reasonable growth levels and no untoward shocks, a full recovery will not take place until late 2014 although this still remains questionable.

GLOBAL: SUBSTANTIAL EXCESS SUPPLY

In the immediate aftermath of the Great Recession overall inventories of many produced goods and some commodities were sitting idle, generating expense (most industries favour 'just in time' delivery models and avoid warehousing goods any longer than necessary). This also meant production of many goods slowed or stopped altogether. At the same time, to move the excess supply of goods, many were priced lower which enhanced the risk of a deflationary spiral beginning. While in the short-term this spells good news for bargain hunters, deflation becomes destructive as the decline in value moves from consumer goods into durable and fixed assets such as houses.

Some goods remain over-supplied, particularly housing in the United States, and other European, Japanese and American manufacturers are still a long way from achieving 2007 production figures again. The US is attempting to stave off serious deflation in the US by bulldozing entire sub-divisions of empty houses that were lost in the bursting of the housing bubble. The hope is that literally destroying the stock of empty houses will keep home valuations for everyone else from falling further. This is particularly important when one considers the amount of consumer debt that is tied up in lines-of-credit instruments that are secured by homes.

For Ontario farmers, substantial excess supply is not much of a personal consideration. In a market where this is a consideration, protectionist instincts against imports are always likely to be roused, as pork and beef producers who market to the US can attest.

The other problem is that the excess supply will always be sold more cheaply, representing additional competitive stress for Canadian suppliers. Fruits and vegetables, for example, come from much further afield than the southern United States; red meat, wine, cheese, and much else can also be shipped rapidly from intercontinental distances.

GLOBAL: LOW MONEY SUPPLY

The amount of money available in an economy is normally tied up in demand deposits (e.g. bank accounts) and credit is issued based on investment and demand deposit holdings. Between the loss of credit in defaulted loans and the growth of government-backed bonds as European Central Banks and the US Federal Reserve buy their own debts, the supply of available money has shrunk since 2008. Much of the money that was injected into the economy by the government has gone to recapitalizing existing banks, and to the public purchase of 'toxic assets' left over from the housing market collapse and related financial sector collapse. The money injected is not in the hands of consumers but rather literally bought the continued relative stability of the international financial system.

Moreover, too many banks (especially in Europe and the United States) supplied too much credit and had too many risky financial instruments based on questionable mortgages back in 2008, so the liquidity crisis slashed their ability to provide credit.

Raising capital, despite the low interest rates, has already become more difficult. Even Canadian banks have become more careful about providing credit in the last three years. Some of the emerging economies that avoided the worst effects of the economic downturn are already bitterly complaining to the IMF about this problem, and in turn are ignoring complaints about the flow of investment funds being pulled out of Europe and the United States and heading their way.

GLOBAL: QUANTITATIVE EASING

Arbitrarily increasing the money supply is an excellent way to induce inflation, although the widespread practice of ‘quantitative easing’ creates new capital at a slightly lesser risk of bringing on the same problem. The problem with quantitative easing is that investors do not trust it as an effective long-term solution.

Quantitative Easing is the use by governments of their Central Banks to print more money to buy government bonds and so as to fund government spending. The strategy depends on the maintenance of confidence in their economies, but if that confidence fails because of a lack of improvement, the risk of inflation coupled with economic stagnation will be substantially increased: in other words, stagflation.

By July of 2010, for example, the US Federal Reserve Bank held $2.1 Trillion of US government bonds, US bank bonds and mortgage-backed securities. During 2011, the Federal Reserve Bank plans to buy another $600 Billion of its own bonds. Investors are taking a dim view of the use of Quantitative Easing, and Standard and Poors Inc. (the world's premiere credit rating agency) has just threatened the United States with a downgrade of its AAA rating if quantitative easing continues. The rationale for the warning is to provide US legislators with a strong reason to get the nations' finances in order before waiting for the next election.

The worst offender for this practice might well be the United States, but the Western European nations are engaged in the same practice and may be in a more vulnerable position to experience a hard reaction from investors. Also, if a cascade reaction to quantitative easing occurs, it is more likely to initiate in Europe.

GLOBAL HIGH UNEMPLOYMENT

Consumer confidence is directly related to unemployment levels; and governments that are already heavily indebted cannot afford too many unemployed workers. This is also a statistic that can be manipulated when governments funded government make-work-projects that create temporary employment but not self-sustaining employment. For instance, the unemployment rate in the US dropped to 8.8% of the workforce, but once adjusted to factor out non-self sustaining employment the actual unemployment rate is estimated between 10 and 14%. Nor is the United States alone guilty of this practice.

The International Labour Organization (ILO) reports that the recovery from the Great Recession has had little impact on employment figures and that globally some 1.5 billion people (half of the world's labour pool) are in vulnerable or insecure jobs; and this falls particularly hardest on the young. Some of the worse-off Western European economies have over 10% unemployment, with young adults often much worse-off (Spain has 40% unemployment among young adults). Even China is nervous about unemployment among the rural young, despite decades of trying to create manufacturing jobs for them.

Part of the reason behind the slow rebound in employment figures is the high price of commodities – particularly in fuel and food – which is adding to unrest in many countries. The tightened budgets of many countries limits major job creation programs.

Between the ILO, the UN, and Gallop polling, the world's unemployment rate in early 2011 is hovering between 6.1 to 7.0%.

Canadian unemployment rates are at 7.7% as of the end of March 2011 with slow improvements through 2010 and continuing this year. Unemployment typically remains highest in Quebec and the Maritimes, and among the young.

Of particular note to the elements of the agricultural sector that rely on seasonal labour from outside Canada; unemployment rates in Mexico and Central America are dropping while the Caribbean rates tend to remain high. The Latin American countries are experiencing economic growth while the Caribbean nations are looking at a major slump in tourism.

NORTH AMERICAN ISSUES

NORTH AMERICAN: WEAK CONSUMPTION AND INVESTMENT

Year	Price of Gold per oz in USD
1971	40.62
1976	124.74
1981	460.00
1986	368.00
1991	362.11
1996	387.81
2001	271.04
2006	603.46
2011	1485.83

While arguably a Global issue in many ways, the immediate impact to consider is the American economy, and to a lesser extent, the impact in Canada.

Consumption and the readiness to invest are derived from income and by confidence. People need the money to buy and invest, but they also need to think that they will not need that money for something more pressing. When incomes and confidence both shrink, consumers become more careful about what they buy and investors become cautious and avoid risk.

In addition to persistent high unemployment in the US and elsewhere, most investors continue to be very cautious and risk adverse. They are resorting to bonds and buying commodities. Gold is often a barometer of investor risk, and the record high prices of recent years continue as the precious metal is a refuge during times of economic insecurity. The accompanying table illustrates ebb and flow of the risk premium from 1971 to the present day.

NORTH AMERICAN: VOLATILE CURRENCY MARKETS

Again, while this logically seems to be a Global issue, the immediate impact for Canadians – especially in the agricultural sector – has been with regards to trade with the United States.

It is all about money. All money (save for that issued in the form of precious metal coins) in and by itself has only nominal value. Paper money is merely a small sheet of cotton fiber or plastic that is nicely engraved and coloured. It has no value.

It is the people that give money its value. That is, the trust and confidence we place in paper money which is the real and actual store of wealth and future purchasing power. For instance, when that trust and confidence is eroded by the belief that it will no longer be accepted, or that its stored purchasing value is declining, money becomes volatile: put simply, money becomes insecure.

The collapse of the housing bubble, which led to the financial crisis, which in turn led to the Great Recession, all combined to create a crisis-of-confidence (a crisis of trust) in virtually all of the reserve currencies of the world. In order to allay that crisis-of-confidence governments throughout the world injected huge amounts of money (known as liquidity) into the markets by making guarantee pledges or through the outright purchase of failed financial institutions, so as to reassure those that feared the loss of their wealth that their investments, bank deposits and the like were, safe. This stemmed public panic in the immediate aftermath of the crisis.

In order to kick-start the economy governments initiated programs of quantitative easing, as has been discussed previously. Initially, much of this money went to paying for the pledges made earlier. Some went into mandatory social entitlement programs, such as extending unemployment insurance benefits while others went into the expansion of public programs. Some of these public programs/expenditures were made in order to renew America's aging infrastructure, such as roads, bridges and was an investment in the economy and America's economic future. Other expenditures made were clearly more questionable and were driven by political motivations not by the need to address the financial crisis. Over time these additional provisions started to further erode public and investor confidence and trust in money. Moreover, some countries also took what many believe to be a conscious step to devalue their money, so as to revitalize their domestic economies through exports.

The aggregate result is that currency volatility increased as global investors attempted to find the best currency in which to park their money. This created currency volatility as money was converted from one currency to another. Investors were attempting to determine which currency to denominate their financial holdings in, by attempting to gauge that currency's country's underlying economic health, and the trustworthiness of that country's government and central bank.

A country like Canada, with relative economic prosperity, secure oil and gas supplies, as well as a banking system that weathered the US housing bubble burst well, found that the value of its currency appreciated on a relative basis. This also made Canada's exports, including agricultural exports, more uncompetitive and thereby damaged the position of Ontario's producers and growers.

However, the currency market is not stagnant. Many of the Global and North American business conditions continue to unfold and play out daily. This uncertainty feeds currency volatility.

NORTH AMERICAN: VULNERABLE BANKING SYSTEMS

American financial instruments affected other banks, including Canadian banks; and the American economy has been hard hit.

The events of the Great Recession were particularly damaging to American and European based banks but virtually every bank suffered losses. It is estimated that American banks lost approximately $600 Billion alone when Mortgage Backed Securities (MBS) investment instruments failed.

During the ensuing financial crisis inter-bank lending all but stopped, as banks no longer were trusting of lending to other banks because no one knew with any certainty how much exposure a borrowing bank had to MBS and whether or not it would be the next one to fail.

One of the principal causes that led to the financial crisis was the US banking regulatory environment that allowed the banks to blur their traditional role in the financial system by allowing them to take on investment and merchant banking activities. Conversely, investment and merchant banks started to take on roles that were traditionally reserved to banks.

The Canadian banking system does not allow for this level of integration of roles between traditional, investment and merchant banking. But, Canadian banks did, and continue to have, exposure and partial ownership positions in US financial institutions. This regulatory framework kept Canadian banks out of the deepest troubled waters when the crisis erupted.

While new banking rules have been enacted in the United States, complete implementation is still another matter. This continues to leave the banking system vulnerable. Banking is a global and highly integrated industry and vulnerability in one place means vulnerability for all. In late 2010, over half of the 105 banks in the EU countries reported that they were still insecure and short on capital.

Widespread unemployment, high levels of consumer debt and the sovereign debt crisis further erodes the ability of banks to absorb more losses and ties up more capital.

The United States has always had a larger number of smaller banks; which leaves them more exposed to failure. As of April 15th 2011, 30 US banks have failed so far this year, and 157 were closed through 2010. In the Great Recession, 165 US banks were closed down and their remaining assets seized. In some areas, only one or two banks remain functioning.

An unhealthy banking sector makes the ability to acquire credit more difficult for businesses and in the end this affects borrowing rates of all borrowers.

NORTH AMERICAN: DIMINISHING FINANCIAL STIMULUS PACKAGES

The neo-Keynesian economic reflex of most Western governments to a recession is to pump funding into the economy – a strategy described as "spending your way out of a recession".

Canadian Jurisdiction	Amounts in CDN Dollars (bracketed figures indicate deficit, non-bracketed indicate surplus)
Canada (Federal)	(29,600,000,000)
Ontario	(16,300,000,000)
Quebec	(3,79,700,000)
Alberta	(3,405,000,000)
BC	(925,000,000)
New Brunswick	(449,000,000)
Manitoba	(438,000,000)
Nova Scotia	(390,000,000)
Nunavut	(50,000,000)
PEI	(42,000,000)
Yukon	7,000,000
NWT	17,000,000
Newfoundland	59,000,000
Saskatchewan	383,000,000

However, the cause of the Great Recession is a combination of both government and corporate failure compounded by government debt loads. Investor and consumer confidence is not returning, primarily as the causes of the situation are a long way from being addressed; in addition to the effects that government debt is having on the availability of capital and confidence in banking systems.

US stimulus packages included the US$152 Billion in tax cuts to consumers in early 2008; the US$787 Billion package passed in February 2009 (which eventually included the 'Buy American' clause); another US$400 Billion in 2010; and another US$135 Billion earmarked in 2011. Altogether, this has added US$1.474 Trillion to US Sovereign Debt, yet the US recovery remains weak.

By comparison, Ottawa earmarked $78 Billion for stimulus packages in 2008 (to be spread over several years); but some $10 Billion was never spent and the Canadian economy rebounded readily enough. The trimming of the Federal deficit in the 1990s was mostly accomplished by shifting the burden to the provinces, but the return of deficit spending in recent years will probably be reversed in the immediate future and further government debt reduction programs should follow.

While the Federal Government's finances are manageable (although debt and deficit reduction are going to be important priorities), the situation for various provincial governments is worse.

In Fiscal Year 2011-12: Government deficits in Canada are expected to run as depicted in the table above.

The net result is that the stimulus packages – all of which depended on governments adding to their already considerable debt loads – have all failed. Few economies, and certainly not that of the United States, Japan, and almost all European nations, have recovered. The only course that will restore confidence is for governments to address their debt, which makes additional stimulus packages (or any major new government programs) unlikely.

In Canada, Quebec and Manitoba are unlikely to provide any new agricultural support programs, where Alberta probably cannot afford to, and Ontario's New Risk Management Program may have a cloudy future.

NORTH AMERICAN: DEFLATION

Deflation occurs when asset and consumer prices continue to slump, which indicated a drop in demand (and thus a recession if negative economic growth holds for at least three months). Deflation also represents the lowering of the value of a currency and the economy it represents. Deflation attends most economic slowdowns.

Economists fear deflation because of the risk of a deflationary spiral where lower prices lead to lower wages, which in turn lead to lower demand and thus downwards once more to lower prices. Deflation means a real risk of turning a recession into a depression (where a recession continues for two years or more and/or there is a loss of 10% or more of a country's gross national product).

While the conditions that generated the Great Recession have not yet been redressed and our economies carry too much debt, economic growth continues – albeit at a very modest pace. It would take a moderate shock (such as a continuing decline in housing prices or an economic downturn in China) to kick off a deflationary spiral. However, it should be noted that Britain's economy is already deflating.

Unfortunately, while many governments and Central Banks have tried to minimize the risk of inflation, the rapid increase in food and energy costs have resulted in the start of an inflationary environment. If this puts a further crimp in the recovery in Western Europe, Japan and the US, deflation seems inevitable.

Deflation might be a Global risk, but the effects are always domestic. Canada's economy is sound for now, but we are losing our traditional markets (usually the US) and there is a risk of a second recession in the US thanks to their continued poor performance.

NORTH AMERICAN: COLLAPSE IN TRADE

Volatile markets in commodities, the risk of currency market volatility, reduced demand in traditional markets and excess supply of many goods are further barriers to full recovery from the Great Recession. Moreover, protectionist instincts are often triggered by recessions – and examples such as the US 'Buy American' policy of 2009 are easy sells to a restless public, as are tensions over trade practices that undermine or violate long-standing agreements and treaties.

According to the WTO (World Trade Organization) Global trade volumes (in terms of goods and commodities) had grown by 6% in 2007, by only 2% in 2008 and shrank by 12% in 2009. Trade bounced back in 2010 with a phenomenal 14.5% increase – which was not enough to restore the losses of the previous two years, and 2011 growth is expected to be an average of some 5.1%. The biggest reductions in trade are in consumer durable goods and manufactured goods, and these are a long way from coming back to pre-recession levels.

The risk of a return to protectionist practices is slowly receding, however not if a 'double dip' recession returns. This is a Global issue, but the greatest impact for Ontario agriculture would be on the Canada-US border given that over 75 percent of Canada's exports are destined for the US market.

NORTH AMERICAN: PROTECTIONISM/NON-TARIFF TRADE BARRIERS

Regulatory obstructions to trade to protect domestic suppliers against foreign competition have been strongly discouraged since the Second World War; and it was the United States that led the charge. Now, however, with the greatest economic challenge the US has faced since the Great Depression of the 1930s, regulations (or the reinterpretation of them) is being increasingly used to provide an advantage to American suppliers. Other nations as hard hit as the United States will feel encouraged to adopt similar measures.

In 2009, when the US President announced his "Buy American" policy, Canada – dependent as we are on trade with the US – immediately protested and was promised exemption. Some Canadian exporters however, still report delays on cross-border shipping.

Even before the slump, Country-of-Origin Labeling (COOL) for meat products in the US was seen as an example of protectionism and a non-tariff trade barrier by directly encouraging consumers to discriminate against non-US produced meat products.

Notwithstanding that the US COOL legislation is currently under appeal at the WTO, the length of time to fully appeal a non-tariff barrier usually ensures that the aggrieved country's industry is long damaged, often permanently, by the time a ruling is made and remedial remedies are available.

NORTH AMERICAN: WEAK DOMESTIC DEMAND

Even in Canada, demand had been weaker than it should be in the last few years and a full recovery has yet to be seen.

As an economic indicator, domestic demand is based on private and government consumption and gross fixed investment. It represents the size of a national economy and the value of its markets. When consumers are apprehensive about their finances and governments are cutting expenditures to meet debt payments, domestic demand normally shrinks.

In the United States, Japan and most of Western Europe, all the signs of weak domestic demand are present. American consumers have been slow to buy houses, new cars and new consumer goods. The US government has not yet joined many European ones in cutting its spending, but will have to do so soon.

Canadian consumers tend to be more cautious than their US counterparts and many heeded Ottawa's call to reduce their personal debts in anticipation of future economic shocks. Confidence in the Canadian economy grew slightly in 2010 and is growing stronger so far in 2011.

There were mixed signals at the end of 2010 – traditional indicators of consumer confidence such as housing starts slumped, and consumer spending in Christmas did not rally to 2007 levels. However, demand was showing every sign of picking up – until it leveled off again in March 2011 over concerns about rising energy and food prices, and unrest in the Middle East.

Of course, government consumption is often out of synchronicity with private consumption, and as reduced government expenditures are inevitable in the near future.

NORTH AMERICA: LOW CONSUMER CONFIDENCE

Consumer confidence is the degree of optimism ordinary consumers feel about both the economy generally and their own personal finances. According to the Canadian Consumer

Confidence Index, Canadians had not recovered the optimism they felt in January 2008, but were making strong gains towards that benchmark by the end of 2010.

In March 2011, Canadian consumer confidence slackened again, due to concerns over rising fuel and food prices, and the related concerns in the Middle East.

LESSONS LEARNED

Ontario's agricultural producers and growers are likely to face continuing uncertainty for the foreseeable future. The array of negative Global and North American business conditions, as discussed in this Report, show little sign of abating and in some cases are intensifying.

America's double round of quantitative easing (QE1 and QE2) ---a technical term for a government buying its own new bond issues by printing money---has yet to reveal its intermediate-term economic and inflationary consequences. This expansion of government spending underlies, and has triggered, the latest political battle over increasing the statutory limit on the total amount of Federal Government public debt permitted by law. It has become the latest lighting-rod between the Republicans and Democrats over the issue of government spending. There is a very real risk that the United States may default on its public debt payment obligations: at least for a period of time. If this happens, America's credit rating risks being down-graded, all else remaining equal, will spark serious interest rate hikes both in and outside of the United States.

The European Union too has yet to come to terms with managing its sovereign debt crisis, as Greece and Ireland look to renegotiate their EU bail out agreements, and as the United Kingdom becomes solidly gripped by the forces of stagflation and unsustainable public debt.

Again, failure to successfully deal with these issues in the United States and the EU carries with it global implications that will impact lenders and borrowers in Canada.

The revolutions in North Africa and the Middle East are far from over, and the war in Libya drags on. Others threaten to develop. The spill-over effect has yet to fully reveal its economic impact, as this continuing civil unrest and war threatens the world's oil supplies. Current oil supply insecurity and the risk of further disruptions threaten to undermine the fragile economic recovery. This issue is so troubling that the International Energy Agency has indicated its support for pumping more oil into the system by having member states draw down their strategic reserve stockpiles. The last time this was done was in 2003 at the commencement of the Iraq War.

These issues, though significant, are just part of the difficulties we collectively face. It is understandable that for many of Ontario's agricultural producers and growers these Global and North American risks can be overwhelming. However, producers and growers are not powerless in confronting these obstacles. Indeed many are succeeding, and some are thriving in, these uncertain times.

We drew on the collective experiences of the producers and growers that participated in this study to collect advice and strategies that have wide impact and application in many commodities. This is supplemented with analysis and recommendations from SCIG's Business Intelligence Unit, in order to further enhance the competitive position of Ontario's producers and growers.

The advice and strategies are divided into three core business management categories -- finance, marketing & sales, and operations -- and are further subdivided into Basic and Advanced sub-classifications. The Basic sub-classification highlights best practices producers and growers can utilize regardless of the size, type or maturity of their own farm operation. The Advanced sub-classification draws attention to more sophisticated strategies that need a solid base of farm business operation but may also require a certain level of operational scale and external partnership and/or resources. Again, these categories of findings are:

- Finance – Basic
- Finance – Advanced
- Marketing and Sales – Basic
- Marketing and Sales – Advanced
- Operations – Basic
- Operations -- Advanced

THERE IS NO SINGLE PATH TO SUCCESS

A caveat: It is tempting to think that there is a simple blueprint that producers and growers can follow that will guarantee success. This is not the case and there are many paths to success. The ideal path for any specific producer or grower is greatly dependent on specifics:

- Which commodity is being produced;
- Is the commodity production generalized or specialized;
- Farm capitalization;
- Debt leveraging;
- Type and size of production operation or facility;
- Location of the production operation or facility;
- Commodity sales and marketing opportunities;
- Stage of farm operation (new entry, established, mature or exiting producer);
- Stage of commodity price life cycle (making money or losing money);
- Individual producer or grower risk tolerance; and
- The availability or unavailability of off-farm based income.

The list of influencing factors is literally endless. The combinations and permutations of critical factors that will drive individual producer or grower success, or failure, are staggering. The right strategy for any specific producer or grower may or may not be the right strategy for their next door neighbour, never mind the farm on the next concession or over in the next county.

The absence of a route/path to success is a positive finding. Ontario's producers and growers – and their operations – are very diverse so there is no single model for success. Farm operations do not need to be forced to fit a particular design or type of operation. There is an opportunity for Ontario's producers and growers to determine and design their own unique business that will result in success and profitability, given their asset base, financial resources, ingenuity, know-how and resourcefulness.

Ontario's producers and growers need not be locked-in or trapped by their business model. Some level of constructive change is always possible. Producers and growers that cast a cold and critical eye on their farm operation and dispassionately assess their current business situation, and then implement some of the advice and strategies which follow, will not only be better off weathering the current Global and North American business environment, but may even find they prosper in that environment. Business success doesn't happen on its own; it requires care and attention just like any other farm activity. You need a master plan.

BUSINESS PLANNING: "THE MASTER PLAN"

BASIC

THE MASTER PLAN

There is an overused adage that, "if a business doesn't plan it plans to fail." It happens to be true. Planning is hard work, and few, either in agriculture or in any other sector, enjoy the process. But planning is essential and the first critical step in building a successful farm operation. Sadly, many of Ontario's producers and growers do not create business plans or take business planning seriously. While there are successful producers and growers that don't have a business plan, it is a rare farmer with a solid business plan that is unsuccessful.

It is easy for producers and growers to delude themselves into thinking that they are too small to write a business plan or that they don't need to write a business plan because it is "all in their head". Some think that they have a business plan but can only produce a few notes on the back of an envelope or paper napkin. All these examples can easily lead to poor performance.

If the Global and North American negative business conditions take a stronger hold in Ontario (and they are certainly threatening to do so) all businesses in every field will be pressured to demonstrate performance with tight and limited resources and under more challenging circumstances. Farming will without doubt become a more difficult, challenging and sophisticated operation than it is already. As a producer or grower, your farm operation will be subject to greater business scrutiny by your existing bankers, customers, regulators, investors or buyers.

If you deny yourself the protection and credibility of a well thought-out, designed, implemented, and monitored business plan, you will be at a distinct disadvantage. Your borrowing rates will be higher, and acquiring capital and debt financing will be more difficult. Your pool of potential customers for your production will become limited. Regulators, including Federal and Provincial tax authorities, will pay you greater scrutiny and unwanted attention. Perhaps most importantly, your farming operation will become less attractive or subject to pricing discounts by potential investors or buyers when you make the decision to retire from farming.

Ian and Vicky Mayberry (Case Study #11) get very small profit margins on their goat milk operation, and so plan very carefully. They also keep "running the numbers" to make sure operational performance matches the projected plan and keep fine tuning their farm accordingly. This brings greater confidence from their lender, and gets them the support they need to keep improving their farm.

Business planning is not something that you can delegate. It is the foundation of success. It is difficult and tedious, and a task that many producers and growers believed they could avoid when they chose to pursue farming as a business and a way of life. Regardless, a written business plan is the key to pulling together financial, marketing & sales, operational, innovation and human resource strategies. Once operationalized, it becomes the early warning system that lets producers and growers mitigate risks and capitalize on opportunities. For the producer or grower that is serious about comprehensively addressing Global and North American negative business conditions, the first and foremost tool is the business plan.

ADVANCED

FLEXIBILITY, AGILITY AND WILLINGNESS TO EMBRACE CHANGE

Humans are creatures of habit and routine. Once we have reached a level of comfort and predictability, we tend to stubbornly resist any change we think unnecessary. Most businesses, including farming operations, share this universal human characteristic. Change for the sake of change is not being advocated here. Rather, there must be a recognition that the external business environment undergoes constant change. Sometimes that change is incremental and gradual. Other times the change is radical and dramatic. Farm operations must be prepared to adjust to change, and producers and growers that demonstrate a willingness to embrace change are measurably better at surviving economic downturns and benefit more from economic upturns.

Flexibility and agility are the keys to making change, or at coming through times when change is forced on you. Change is what happens; flexibility and agility are the tools that let you survive.

A lot of successful producers follow this strategy. Ken and Murray Porteous (Case Study #6) use diversification in their tender fruit farms as part of their risk mitigation strategy – they never let one single fruit be more than 5% of their holdings. Brian Wiley (Case Study #4) is a Canola Farmer who also has a dairy herd and also grows wheat, soya and hay. For him, flexibility lets him optimize returns, take advantage of new opportunities, and hedges against loss.

Truly advanced producers and growers actively and continuously manage change. They recognize that change is a constant which closes existing business lines and presents new business opportunities. When engaging in business planning, producers and growers should be asking themselves whether or not their existing business model makes economic and financial sense. This process includes asking the hard questions, such as, “Do I abandon this line of farming in favour of an entirely different commodity, production activity, or business line?” it is critical that the answers to such questions are rooted in firm financial analysis and assessment of opportunity costs and transition costs.

In the preliminary stages this does not need to be an exhaustive exercise. Naturally, if the initial assessment results in a positive answer, a more complete analysis is merited. If the response confirms that it is best to stay with current practices and at the current size, the exercise usually results in the producer or grower in having new insights into their business and operations that generally lead to an evolution of the farm business in the future.

Answering this kind of tough question is very difficult. Producers and growers that wish to seriously engage in this kind of exercise may benefit from requesting that their spouse, adult child, business partner, accountant or banker take on the role of a “devil’s advocate”. While the producer or grower argues in favour of the status quo, the devil’s advocate argues in favour for revolutionary change. This is a proven technique that has withstood the test of time. It helps with “out-of-the-box” thinking, and can increase a producer’s or grower’s competitive advantage and position.

FINANCIAL STRATEGIES

BASIC

MAINTAIN LIQUIDITY AND DO NOT OVER LEVERAGE

Successful producers and growers know the value of maintaining liquidity. Liquidity in this sense is the amount of capital that is available for investment. Liquidity generally takes two forms: first, cash-on-hand, or assets that can quickly be turned into cash without suffering a cash conversion discount (i.e selling it for much less than you got it for). Second, access to credit.

Liquidity affords producers and growers two critical factors for success: 1) investment funds to pursue new initiatives, innovation, expand operations or some other business purpose; and 2) time, which is perhaps the most critical advantage. This means time to weather a market down-turn or disruption, failed crop or production, failed venture or such similar circumstance. Time is a vital resource in order to allow the producer or grower to regroup, recast and try again without facing cash-flow pressures that in hard times could result in bankruptcy.

Generally, producers or growers tend to achieve liquidity through access to available credit rather than having cash-on-hand. Cash, other than working capital, is typically invested in physical assets that are, or maybe, collateralized by way of term loans, revolving operating lines, or non-debenture instruments.

Most farm operations carry some level of debt. In theory, a profitable business will seek to maximize its level of debt relative to equity because this will result in a higher percentage return on invested equity. There is also the advantage that interest on debt is a legitimate deductable business expense. However, an over-leveraged farm operation (in other words, where the farm operation has very limited or no further access to credit) has less ability to weather market storms, or take advantage of business opportunities when presented. Similarly, over-leveraging usually results in excessive debt servicing costs, and can push an otherwise profitable business into a losing situation if interest rates move higher.

In short, producers and growers should look towards maintaining manageable levels of debt that can be accommodated even if there is an upward movement in interest rates.

Arnie Hakvoort (Case Study #3) could not stress this enough. By keeping his debt to equity ratio low, he usually secures extremely favourable terms for loans and pays them off quickly, allowing a slow but steady growth to his operation.

CORRECTLY MATCH YOUR DEBT

Bank debt usually takes two forms: 1) revolving operational lines of credit; 2) and term loans.

As a general principle, operational lines are used for typical day-to-day business needs that cannot be met by the farm operation's normal cash-flow. Operating lines almost always have a floating or variable rate of interest, based on some measure of the lender's prime rate (not to be confused with the bank lending rate) plus an additional percentage of interest. The better your commercial standing, the less additional percentage of interest to which the farm operation will be subject. By design operational lines are intended to be short-term financial measures. This also allows the borrower to reasonably predict the interest expense that will be incurred when utilizing the operating line. Operating line borrowings are generally more frequent, and are used on an "as needed" basis, for relatively small amounts when compared to term loans.

Term loans are usually larger in total dollar borrowings, provide the option for fixed rates of interest (though variable, and blended -- percentage fixed and percentage variable -- rates are also available) with a fixed repayment schedule over an extended period of time. Term loans are most often tied to the purchase of a large physical asset such as land, buildings, machinery, or vehicles which are used to secure the loan. Daniel and Kim Martin (Case Study #5) have mastered correct debt servicing strategies in the operation of their dairy, and are a prime example for producers wishing to emulate the same strategy.

Good debt management suggests that short term assets and operational needs of a business should be funded with short-term debt (operating lines) and long-term assets, should be financed with term loans. Unfortunately, many producers and growers get into financial difficulty because they finance long-term assets with operational lines. This creates two difficulties. The farming operation is often starved of access to short-term debt needed to support day-to-day operations, and the debt servicing costs to secure long-term assets becomes excessive and a burden. It is also critical to acknowledge that the debt financing instruments are in place for the farm business; they are not there for personal use. As the Porteous family (Case Study #6) observed: "You don't use the operating line to buy a new summer boat!".

During periods of rapidly rising interest rates this burden could push the farming operation into severe financial difficulty. This is a substantial risk during periods of deflation or stagflation, where refinancing the long-term asset may not be possible given the decline in the value of the asset in the cast of the former, and due to reduced operating revenue and increased operating costs in the case of the latter.

LOCK-IN INTEREST RATES

From a historical perspective, the current period will be known as a time of unprecedented low interest rates and cheap money. Interest rates have nowhere to go but up. Producers and growers should strongly consider locking-in their debt instruments, if they have not already done so. Bruce Hudson (Case #2), Arnie Hakvoort (Case Study #3), and Daniel and Kim Martin (Case Study #5) stress this point and as a result their farming operations are more stable and secure during this time of global instability.

Likewise, if producers have debt obligations that have a higher level of interest than the current market rate, consideration should be given to re-financing that debt at a lower rate. Strong consideration should also be given to converting fix term loan instruments that carry a variable or floating rate into a fixed rate. Moreover, producers or growers that have utilized consumer debt vehicles, such as personal lines of credit, bank credit cards, and the like, for their farming operation should consolidate that debt into a commercial loan at more favourable rates. If that isn't possible due to the financial situation of the producer or grower, at the very least the institution that issued the credit should be contacted in order to secure a lower rate of interest.

YOUR BANK ACCOUNT MANAGER IS YOUR BEST FRIEND; TREAT HIM/HER AS SUCH

There was a time when the local branch of your bank had a great deal of authority to approve and manage loans. This is no longer the case. Local branches have reduced borrowing limits, and more limited authority to approve and manage loans. An account manager is at best your advocate within the branch and with the centralized loans approval department. The account manager's job is to: 1) evaluate the farm operation's credit needs; 2) determine the farm operation's credit worthiness; 3) determine an initial credit/debt structure; and 4) write-up an initial credit application (including supporting documentation and analysis) that supports the credit request within the rules and practices of the lending institution. Following approval of the credit application, it is the account manager's responsibility to monitor the lending activities, as well as report any violation of the agreed upon lending terms and conditions, or other business circumstances that may negatively affect the lending institution. This is a highly structured environment with very limited delegations of authority and a great number of checks-and-balances in order to minimize lending risks.

It is in the producers and growers interest to ensure that the account manager is fully informed of the nature of the farm operation. Ken and Murray Porteous (Case study #6) were quite emphatic about this point and use every opportunity to keep their account manager informed and involved with their operations.

This is made much simpler if the account manager has the benefit of a written farm operation business plan. The credibility of the plan is enhanced if the farm operation can actively demonstrate management monitoring systems that measure actual results to planned performance. Credibility is even further enhanced if management can demonstrate the ability to make operational adjustments and take corrective action if results differ from expectations; or to demonstrate the existence of sound contingency plans.

Open, honest and frank communications between the management of the farm operation and the account manager is crucial. It is important that the account manager is suitably informed about the on-going farm operation in order to maintain his/her credibility with the other banking departments. Successful producers and growers have a close and personal relationship with their account manager that is based on trust and credibility. This relationship is critical to the success of the farm operation particularly during times of difficulty. The banking relationship is first and foremost based on trust, never allow that trust to be violated.

A solid relationship with the account manager is the first line of defence against being referred to the lending institution's special credit department during times of business difficulty. Special credit departments have only a single goal; to recover as much of the outstanding debt owed to their institution by your farm operation. These departments have little or no regard for your business operation or its continued survivability. Once your farm operation is transferred to the special credit department your account manager loses all control and retains very limited influence.

CHOOSE YOUR FINANCIAL INSTITUTION CAREFULLY

Not all banking and lending institutions are the same, nor will they be equally committed to the agri-business sector. While publicly vying for your commercial business, lending institutions have sometimes made unilateral business decisions to withdraw from entire sectors. At such times even profitable and stable commercial accounts are faced with the possibility of being informed that they need to secure a new lender. Under the best of circumstances finding a new lender is an administrative inconvenience, assuming the farm operation is profitable and stable. If the farm operation is distressed and under difficulty, then securing a new lending institution can be very frustrating and problematic.

Daniel and Kim Martin (Case Study #5) found that their finances were very rocky in their first year of running their Dairy operation, and realized they had to shop more carefully for a financial institution that would support their needs.

All other factors being equal, successful producers and growers seek out lending institutions that are committed to agri-business over the long-term, and carry a sizeable agri-business lending portfolio. Such institutions typically hire an account manager sales force that understands agri-business, which makes communication your financial farm operation needs simpler. Moreover, these institutions will generally develop more innovative lending products tailored to your farming needs.

NEVER SAY NO TO CHEAP OR FREE MONEY

As a whole, agri-business is a highly supported sector by the Federal and Provincial governments. While often complex, cumbersome and administratively burdensome, governments do continuously generate a suit of programs that provide either cheap money or free money or the ability to acquire goods or services at a reduced cost. Farming operations should maximize their use of these funds. John and Barbara Neufeld (Case Study #9) made use of government grants and incentives to grow their winery, but make a strong point about not planning on this income to augment routine operations.

But, even cheap money needs to be repaid at some point in time. If a farm operation avails itself of free money operational discipline must be exercised in order to ensure repayment in keeping with the terms and conditions of the loan.

Moreover, funds available for agri-business are not exclusively found in the domain of the Federal and Provincial ministries of agriculture. Other ministries and departments often have funds available that agri-businesses can access.

CASH FLOW IS KING

Cash flow is the life blood of any farm operation. Cash flow analysis is the examination of money that flows out of the farm operation and money that flows into the farm operation over a defined period of time. Cash flow management ties together a farm operation's profit and loss expectations, capital expenditures, collection of receivables, expense payments, borrowing needs, and investment abilities. Many otherwise profitable farm operations have been forced into bankruptcy because of cash flow mismanagement rather than having a failed business model. If you are out of money you are out of business.

Cash flow management is an art that once mastered positively affects a farm operation's sales growth, gross margin, selling expenses, overhead costs, accounts receivable and payable, inventory and capital expenditure. Nick Mastronardi (Case Study #8) and John and Barbara Neufeld (Case Study #9) stress the importance of maintaining cash flow for larger operations. Ian and Vicky Mayberry (Case #11) did the same for their smaller operation as a defence against the unexpected. Successful cash flow management is about financial efficiency that maximizes the potential of every aspect of a farm's operation.

That said, sometimes a farm operation is not in a position to support the family in the immediate or near term, but is able to do so in the intermediate to long-term. In such cases farming families most determine whether a "farming way of life" is sufficiently important, and thereby merits temporary external financial support for the family through the generation of off-farm income. Andy Ernewein (Case Study #1), recommends that the smaller producer or grower take care to maintain an outside job for that measure of flexibility and security.

ADVANCED

ACCESS TO EXTERNAL EQUITY

The overwhelming majority of producers and growers finance their operation through their own personal equity (or family equity) and access to debt financing, specifically bank operating lines of credit and term loans. Some have ventured into the realm of raising private equity from non-family sources in exchange to a partial equity ownership of the farming operation. The advantage of this type of financing is that a farm operation can get strategic financial injections into the farm operation without incurring additional debt servicing costs or burdens. Rather, the private equity investor shares in the profits and losses of the farm operation in proportion to their equity investment in the business.

The trend towards this kind of investment has been spurred on by non-traditional investors seeking positions in real and tangible assets rather than traditional stock and paper holdings. Also, some of these investors are looking for long-term supply contracts with the farming business that they have targeted for investment. This is a twist on the up-stream integration strategy.

This kind of strategy best suits a large and well-established producer or grower, that has institutionalized strong internal business management practices. As one would expect, the ability to fairly value farm business operations is a critical factor in being able to pursue this kind of investment. An additional advantage is that the investor usually brings to the farm operation more than just capital. Exclusive market access, sales distribution connections and technical expertise are examples of intangibles that can offer the farm operation the ability to rapidly grow and expand. The result can be a supersized growth in the business value of the farm operation that far exceeds the pre-investment valuation of the farm operation and more than compensates for the loss of a percentage of equity ownership by the original owner.

MARKETING & SALES STRATEGIES

BASIC

BUSINESS IS ABOUT RELATIONSHIPS

First and foremost, business is about personal relationships. There are many people in the world with whom we can choose to conduct business. No one willingly conducts business with persons that are abrasive, rude, and difficult to deal with. Similarly, there is an expectation that in business you will meet your commitments, and be true to your word. Your personal business reputation is one of your most valuable intangible assets. By extension, the conduct of the people you employ, on your farming operation's behalf, are a direct reflection on you. Do not allow difficult employees, partners, contractors or others that represent you, to negatively affect your business prospects and dealings. Nick Mastronardi (Case Study #8) makes this a critical part of his strategy, to make all contacts with his greenhouse operations positive ones.

ALL CUSTOMERS ARE AT RISK

"If you are not talking to your customers, someone else surely is". Producers and growers can no longer produce their product, and forget about it once it passes out through the farm gate. Albert Streef (Case Study #7) understood this and made it central to the expansion of his wholesale business – he understands his customers' needs often better than they do and anticipating their requirements.

Virtually every agricultural product produced is a commodity, and is subject to commodity pricing. Being competitively priced is a given. Likewise, by definition, commodities are standardized in characteristics and subject to standardized grading. Product differentiation while possible is difficult in commodity production.

Commodity buyers are typically concerned about other intangibles that impact their operational, marketing and sales competitiveness. Savvy producers and growers talk to their customers frequently and routinely in order to determine to learn about those intangibles. Examples of intangibles include such things as:

- Delivery volume flexibility;
- Specialty orders fulfillment;
- Small or large volume order fulfillment ability;
- Just-in-time product delivery scheduling;
- Sourcing of commodity for the buyer during off-season;

- Favourable trade credits, purchase financing, unsold goods take back arrangements or consignment sales;
- Storage of commodity on the buyer's behalf;
- Preferential access to commodity produced;
- Free product promotion; or
- Business network access or access to key business alliances.

This is just a sampling of intangibles that a producer or grower can offer their customer/buyer and thereby secure a stronger customer relationship or preferential supplier status.

PICK SUPPLIERS AND CUSTOMERS CAREFULLY FOR FASTER GROWTH, REDUCE COSTS AND ENHANCE MARKET ACCESS SECURITY

Generally, producers and growers sell their production to the next link in the value chain -- specifically to processors or retailers. In many commodity sectors the market structure is such that there are many producers of the commodity but relatively few buyers of the commodity. It is not uncommon that producers and growers deal exclusively with a single buyer. This places the producers and growers at substantial risk, not only in terms of market access, but also in terms of concentration of accounts receivable. As a first step, producers and growers should give serious consideration if it is possible to diversify their sales away from a single buyer (certain supply agreements (which specify specific production practices) make it difficult or impractical to gear production to several buyers). Clearly, having a "captive" supplier base works to the business advantage of the buyer, and most buyers are quick to exploit that advantage.

Even under these conditions producers and growers still have choices. It is important that producers and growers are selective as to which buyer they tie their business success. Ian and Vicky Mayberry (Case Study #11) do so, with an eye to future growth for their goat dairy; and Tom Manley (Case Study #12) adheres to the same principle with his organic vegetables. There are two additional factors that must be given paramount consideration.

First, what will be the cost-of-production of producing the commodity for a specific buyer when all special production factors and consideration are factored in? What is the unit gross margin that will be generated by the farming operation under that specific buyer supply agreement? How does it compare to other potential supply relationship on offer, and what level of operational flexibility (or restriction) does this mean for the farming operation? For most producers this calculus is second nature.

Secondly, but equally important, but often discounted or ignored, is an evaluation of the market strength and position of the buyer within their sector. A strong and industry leading buyer is likely out-competing their competitors and is more likely to be able to weather economic down-turns and market difficulties and expand during market up-turns. The converse is true for a weak buyer. Producers and growers should attempt to partner with strong buyers in order to safeguard market access. Failing to do so places producers and growers at a costly competitive disadvantage, and undermines business security.

ADVANCED

SEIZE GLOBAL OPPORTUNITIES THROUGH COLLECTIVE ACTION

Starting in the 1950's Ontario producers and growers supported the creation of commodity marketing boards in order to provide greater bargaining power and strength when negotiating with buyers. The position of commodity marketing boards started to erode in the late 1990's and early 2000's as some producers and growers lobbied the Government of Ontario and the Ontario Farm Products Marketing Commission to either erode the single desk selling powers of commodity marketing boards or to disband their authority entirely. The argument at the time, and which is still often heard, is that commodity marketing boards stifle entrepreneurial drives and innovation which is not only required to meet increasingly diverse buyers' (processors') needs but also handicap producers and buyers as they attempt to compete against international players both in the domestic and international markets. The trend in government has been to grant these requests for de-regulation.

The irony is that just as the authority of various commodity marketing boards was being curtailed in the name of fostering greater competitiveness for producers and growers, there has been a shift in the international commodity markets that actually support the role of commodity boards in the sale of product(s) internationally. This point bears further explanation.

It is fair to say that the drive to reduce the marketing authorities of commodity marketing boards was driven by producers and growers who wanted to operate in a similar market environment as that which is present in United States. This is understandable given that the overwhelming majority of export sales from Canada, and of course Ontario, were destined to the American market.

However, at the same time as commodity marketing boards were being dismantled, access to the American market began to dramatically decline due to protectionist forces in the United States that were pursuing a "Buy American" policy. American efforts have largely been successful, and have been indirectly supported by the weakening of the US dollar. Having been effectively excluded from the American market producers began to flood the Canadian market with product that could no longer be exported.

While this has been unfolding in North America, other highly desirable markets began to open, specifically in China, but also elsewhere in Asia generally. These new entrants to the international commodity markets are often principally large state-owned-enterprises that seek to fill huge orders on behalf of the Government of China. While some Canadian processors and producers have been able to participate in these new market opportunities, the vast majority of producers have been denied access to these markets because they cannot put together a bid that would meet the minimum supply volume needs of the Chinese buyers.

In short, the dismantling of producer collective marketing, has denied producers access to the new Asian markets they so desperately need and want. It must be understood that the various producer organizations that promote Canadian product internationally are ill equipped to fill this need because as promotional bodies they have absolutely no product to sell, and by extension cannot enter into supply agreements.

There is a need for dynamic and internationally savvy producer commodity marketing boards vested with the mandate to sell Canadian (Ontario) commodities in the international marketplace. This is a role that can be furnished without negatively affecting the current system of agricultural commodity marketing, or more correctly the absence of such systems. It is a role that is compatible with the provision of universal services that commodity boards (non-supply management) have become responsible for in Ontario. To create such a new role and mandate would offer new marketing opportunities for Ontario producers and growers and in turn economic prosperity for them and the rural communities in which they reside.

KNOW YOUR CUSTOMERS' CUSTOMERS BETTER THAN YOUR CUSTOMER

It is a mistake to assume that the buyer of your farming production (your customer) fully understands the needs and wants of their customer (who are generally retailers or consumers). Those producers and growers that invest in understanding the needs of their customer's customer gain power and influence with their buyers. This power and influence can be leveraged to secure superior supply agreements; better financial returns; competitive advantage relative to other suppliers; and first-mover advantage in supplying new and innovative products.

This approach has been put into practice by Albert Streef (Case Study #7). Robert and Francis Bierhuizen (Case Study #10) takes this further than any other interviewed farmer; and have turned themselves into the fashion experts for their horticultural greenhouse – informing their buyers what their buyers customers will be expecting next year.

Producers and growers that want to adopt this strategy must recognize that a financial investment will likely be required. Presenting consumer marketing information is ideally done through independent marketing research that carries authority and credibility. The research should be conducted from the end users perspective in relation to their supplier, namely your buyer.

ADVANCED ADVICE FOR THOSE PRODUCERS & GROWERS THAT MARKET AND SELL DIRECTLY TO RETAILERS OR CONSUMERS

Many producers and growers have diversified away from selling their products to further processors and distributors, and have taken their marketing and sales to the next level by selling directly through retailers or to consumers. This is a much more difficult and complex process of marketing which has unique characteristics. John and Barbara Neufield (Case Study #11) have been able to leverage this into great profitability. Similarly, Ken and Murray Porteous (Case Study #6) do the same by going directly to consumers by providing in-store tastings of their produce, particularly apples.

SPARK CURIOSITY IN YOUR PRODUCT BY CREATING A GOOD PRODUCT STORY

Story telling is one of the most powerful marketing and sales tools. It must be recognized that the vast majority of products carried on retailer shelves are essentially commodity products. Don’t be fooled, this statement applied equally to the majority of branded products, save a few exceptions.

Retailers understand that the most powerful and successful products on their shelves are those that are able to create an emotional connection with the consumer. It is not about the product that is inside the packaging, but rather it is the story tied to that product. Make the emotional connection with the consumer and the sale will follow.

Andy Ernewein (Case Study #1) understands that a consumer that can make an emotional connection to his family farming operation and his methods of production is likely to be a regular and consistent buyer of his beef. For the consumer it becomes a point of pride and prestige to serve Ernewein beef to dinner guests. John and Barbara Neufield (Case Study #9) capitalize on 1812 and their vineyard's role in that key period in Ontario's history as an emotional tie for the consumers of their wine. Drinking their wine becomes a process of partaking in history and linking back to the Ontario of yesteryear.

Product stories should be short and crisp, intrigue and captivate, connect at the level of humanity, and leave the consumer feeling hopeful. The story comes first, the product facts come second. Stories should not attempt to motivate consumers by manipulating feelings of guilt or shame.

CREATE WORD-OF-MOUTH MARKETING THROUGH SOCIAL MEDIA NETWORKS

There is a popular misconception that product marketing requires deep financial resources and entails the use of print, radio and television advertising. That was true twenty years ago, it is not true now. It is widely acknowledged that the most effective and influential method of advertising is “word of mouth”. More specifically, the verbal endorsement and recommendation for a specific product by one’s social and professional peers.

Traditional media outlets have been struggling with this new reality for some time, and, as their severely declining advertising revenues have demonstrated, have been at a loss at how to reverse this shift.

In contrast to this shift, the greatest increase in product marketing and promotion has been at the level of the electronic social network. However, this kind of product promotion is nothing like traditional advertising. It is also no-where near as expensive, and is well within the scope of affordability of producers and growers that engage in direct marketing and sales.

Without doubt, producers and growers must start with a great product that is tied to a great and compelling story. Both the product and the story must be “seeded” within social networks usually by persons-of-influence which also tend to act as the social network hub. These persons that act as hubs need to be triggered in order to create a level of excitement around the product. Once one social network gets talking and becomes “excited”, the objective becomes to infect other networks that share overlapping membership. Infect enough networks and the talk about a product “goes viral”, meaning that it takes on a life of its own and “infects” other networks in a logarithmic manner.

Producers and growers interested in this form of marketing and sales can acquire the assistance of specialized firms that specifically deal in this product promotion area.

CUSTOMER WIN BACK STRATEGIES ARE MORE COST-EFFECTIVE THAN ACQUIRING NEW CUSTOMERS

Customers may be divided into six categories: 1) prospects; 2) new customers; 3)retained customers; 4) at-risk customers; 5) defectors or lost customers; and 6) regained customers. The most common reason from customers leaving are: poor service; a poorly handled complaint;

disapproval of changes such as pricing or product characteristic; and feeling that they are being taken for granted.

Acquiring customers is perhaps the most time consuming and expensive endeavour for any business. It is also a farming operation’s most important business task. When assessing a customer's financial value to the farming operation it is important to consider the customer's lifetime value. In other words, the total value of all sales over the course of a "lifetime". If the customer is only viewed in terms of a single transaction the farm operation is discounting the economic value of that customer significantly.

It is worth noting that some business loyalty studies have concluded that staff turnover is given as the reason for customer defection more than 50 percent of the time. These same studies have also found that satisfied customers are not always loyal customers. The Internet offers customers more transparency and easy availability on competing pricing and service offerings. The result is that loyalty has become commoditized. Producers and growers need to constantly discover and anticipate customers' un-met needs and re-cast their farming operations to meet those emerging needs.

When dealing with a potentially defecting customer don't get mad or defensive but rather engage that customer in an attempt to prevent the defection or to leave the door open for a future renewed business relationship. Ask the following questions:

- I'm sorry you are having problems. May I please have the details so I can help?
- Why are you considering leaving us?
- Have you had problems before?
- If you leave us, where do you plan to go?
- What attracts you to [competitor's name]?

While discussing this with the customer you should:

- Listen carefully, and acknowledge their complaint. Be contrite.
- Not pass the buck.
- Offer a generous solution.
- Give the customer options.
- Be gracious, whatever the customer decides

LEVERAGE SOMEONE ELSE'S SALES FORCE

Many producers and growers have a very limited or no sales force. It is very common in even some of the largest farming operations in Ontario for the owner of the operation also to wear the hat of the "Chief Marketing and Sales Officer". As a result, the marketing and sales function must often compete for its fair share of attention relative to other business operating tasks. This reality creates a bottleneck and limits growth and business development.

The solution lies in seeking out a strategic partner which has an existing sales force, in a related or allied industry on which you can piggy-back the promotion of your products. This is not as difficult as it sounds. The key is to find a strategic partner who can enhance their relative competitive position in their marketplace with the addition of your product. John and Barbara Neufield (Case Study #9) made a lot of use of this by partnering up with a restaurant food distributor to co-sell their wines; thus adding value to the distributor’s business and increasing their own sales.

The financial compensation for this kind of arrangement can vary from a percentage of sales to a quarterly flat payment. Notwithstanding the compensation arrangement, it is critical that the producers and growers that adopt this strategy not only make the financial and human resource investment to educate the new sales force about their product, but to also incentivize that sales force to generate sales.

OPERATIONAL STRATEGIES

BASIC

PLAY WHERE YOU CAN WIN, AND GET RID OF DISTRACTIONS

Many producers and growers are operating at a sub-optimum mix for their farming operation and are thereby making their farms less successful than they should be. No two producers or growers are alike. No two farming operations are alike either. Every farming operation has its own unique competitive advantages and disadvantages. Producers and growers should take a hard-nosed approach to determine their unique personal skills and operational characteristics. Once this process is completed, it should be matched against existing market realities and opportunities in order to create an optimum farming operating model. Once the optimum farming model has been determined, all other activities that distract the farming operation from fulfilling the objectives of the new model should be discontinued – unless keeping a residual capability for another product is part of your plan.

DRIVE OUT COSTS AND DRIVE IN EFFICIENCY

Most producers and growers adhere at least in principle to the business concepts of cost control and cost reduction, and efficiency and productivity drives. However, there is an extremely wide variation when these objectives are assessed in practice. Few areas of business are as complex and or as elusive as achieving cost reductions and efficiency gains. It is a process that never ends and can always be improved upon. For Ontario's best producers and growers it is a daily obsession.

Arnie Hakvoort (Case Study #3) makes this a central principle of his farms – reinforcing success and giving his best support to his most productive asset; focusing his input costs where it will do the most good. Paying close attention to the details is a widespread strategy.

Ken and Murray Porteous (Case Study #6) made a science out of studying the cost-benefit analysis on a continuous basis on their operations, ie. being able to realize within 30 minutes when it is time to reassign assets to another task.

While many producers can come up with creative and ingenious ways to reduce costs and increase efficiency within their own farming operation, many struggle to accurately determine how their operation stacks up against others within their sector. This is a benchmarking challenge. Some turn to government published cost-of-production models to determine a baseline. Unfortunately, many producers and growers find these models too crude to be of much use and assistance. One solution is benchmarking alliances. These are becoming common in other industrial sectors.

Benchmarking alliances are made up of groups of like minded firms, usually acknowledged industry leaders that on a confidential basis share their operational cost structures and efficiency and productivity performance with third parties (usually an accounting firm) on a confidential basis. The third party then aggregates the performance data and publishes the findings to participating parties on a no-names, confidential basis. Firms participate in these types of proprietary information sharing arrangements because the benefits of gaining performance data far out-weighs the risks and costs associated with supplying one's own data.

Producers and growers that are interested in establishing benchmarking alliances should first seek out five to ten like-minded farming operations and then collectively approach a third party accounting or management consulting firm to act as the third party information analyst. Naturally, the professional service costs are shared amongst participants. If you experience difficulty in finding alliance partners consider approaching your own accounting and tax advisor for assistance in identifying potential participants. However, a note of caution is in order. Be sure to acquire industry leaders as participants in the benchmarking process. Not only are these farming operations more likely to participate in these types of ongoing business efficiency studies, but there is little use in benchmarking one's operation to those operations in the middle or lower end of the sector. Also, for maximum use, study participants should be of roughly the same business size and scope.

FAMILY INC. THE NEW COOPERATIVE

An economic reality of farming in Ontario has dictated that many producers and growers trim their hired staff complement and in turn return to or take on additional daily farm operating tasks. This has placed considerable pressure on farming operations particularly larger operations that grew dependent on outside labour.

Deep in Ontario agrarian roots, when agriculture was the dominant business and economic activity, farming families took a collective "neighbour-helping-neighbour" approach to manage those times of year, or those tasks, that required more manpower than any single farming family was able to muster. While those by-gone days are past, and agricultural mechanization has had a tremendous impact of agricultural labour productivity, there are nevertheless instances when additional help is required on the farm.

Some producers and growers have turned to loose partnerships and mutual assistance agreements in order to attempt to address the more rigorous labour demands of farming. In some instances these mutual assistance agreements have even extended towards the sharing of capital equipment. Others have taken the approach of contracting out work to third parties. The results have been mixed. Contracting out can be expensive and risky depending on the time of year and the task required (i.e. bringing in the crops). Likewise, producers and growers do not always share the same work ethics and priorities and this too can result in strained relations and operational uncertainty. Producers and growers are by nature independent and self-reliant and reluctant to be dependent on others.

The exception to this general observation is in the case of siblings, or parents and adult children that are in close proximity and engaged in farming. The extended agricultural family, what we refer to as "Family Inc." does appear to be a successful model that fosters successful mutual assistance and cooperation. In these cases, the sharing of labour, equipment, time and advice is very successful and translates into a competitive and comparative advantage. Blood-ties are a strong force that motivates mutual accountability, commitment and at times self-sacrifice. Daniel and Kim Martin (Case Study #5) have adopted the Family Inc approach with their parents and siblings with great success.

IT'S ABOUT PEOPLE BUT IT IS ALSO ABOUT MACHINES

Historically, agriculture was the first industry that underwent the mechanization and embraced the adoption of labour saving devices and technologies. This trend has remained consistent, and has withstood the test of time. Before hiring additional labour, producers and growers should seriously investigate whether the task(s) can be mechanized or automated. The application of technology not only reduces costs and increases productivity over the long-run, but in certain circumstances carries additional tax relief, not to mention employment related tax relief.

Robert and Francis Bierhuizen (Case Study #10) reckon to save on some labour costs with the use of robots.

Nevertheless automation is not always possible or practical. In circumstances where the hiring of employees is necessary the following four principles are recommended to maintain farming operation competitiveness:

- Be a company people want to work for;
- Select the right person in the first place;
- Get them off to a great start; and
- Coach and reward to maintain commitment.

Nick Mastronardi (Case Study #8) ensures that his non-family employees have their interests strongly aligned with the interests of the family owners of the greenhouse operation. He does this by ensuring that employees' financial compensation is directly linked to the operation's performance.

ADVANCED

OPERATIONAL METHODS CAN PROVIDE THE ADDED BENEFIT OF ENHANCED MARKETING AND SALES

By definition, commodities are standardized and interchangeable. Their main attribute is their 'sameness' from one unit to the next. However, some commodities while maintaining their 'sameness' can nevertheless be differentiated by the production methods employed to produce that commodity.

By way of example consider conventional field vegetables versus organic vegetables. While some may argue the point, ostensibly the consumer cannot differentiate between conventional vegetables and organic vegetables. Yet, a segment of consumers are willing to pay a substantial premium for organic vegetables. These consumers are paying for an operational technique that they see as superior and desirable.

Now consider a different class of vegetables, specifically greenhouse tomatoes, peppers and seedless cucumbers. It is eminently arguable that greenhouse vegetables share all of the same characteristics as similar organic vegetables. It could be correctly asserted that greenhouse vegetables (hydroponics) are superior to organic vegetables in that they never touch soil, nor are exposed to pesticides and are "super-fed" to ensure maximum nutrient content and development. So a reasonable question that can be asked is why organic vegetables carry a price premium to greenhouse vegetables when greenhouse vegetables have superior favourable consumer attributes? Nick Mastronardi (Case Study #8) reckons hydroponically grown vegetables are entitled to the same price premium enjoyed by organic ones. It would seem reasonable that greenhouse vegetables should be co-branded as organic in order to capture the additional price premium. Doing so carries no additional cost from an operational perspective.

Producers and growers should examine their existing operations and explore the possibility that their operational method may indeed yield superior returns if marketed and sold in a different fashion.

LEVERAGE SOMEONE ELSE'S ASSETS

One of the main demands and challenges on agri-business is scale. As a general rule, farm operations have increased in size in order to increase efficiency and reduce the unit cost of production. This is in keeping with the public expectation that food prices will stay low while quality, seasonal availability and production volume will increase. This push towards ever increasing scale is also evident at the grocery retail level as it drives towards consolidation in an attempt to increase buying power and geographic pools of captive consumers (consumers with very limited selection of retail stores to choose from).

Producers and growers have a challenge when dealing with a large and powerful grocery chains to meet the grocer's volume and seasonal requirements in order to secure supply contracts. In order to deal with this demand, producers and growers can employ the strategy of "virtual scalability". This is achieved by securing product supply from other producers, co-mingling that supply with one's own production, and then collectively marketing the same. Naturally, the producer or grower taking on this role, is also free to charge a transaction fee to participating producers or growers.

The same principle can be applied during the off-season, however this time the coordinating producer will likely need to source from foreign producers, nevertheless the same principles apply.

By adopting this type of strategy the producer or grower has increased his product volume while not incurring valuable input expenses but still gaining the relative sell power and bargaining position of a much larger producer or grower. Similarly, the coordinating producer or grower has virtually integrated down the supply-stream, and has thereby positioned himself to capture a greater proportion of profits available, and has "fulfilled the need" of his grocery buyer by providing the sourcing of product all the year round.

This is precisely the strategy that Albert Streef (Case Study #7) has adopted by brokering the products of other farms through his wholesale business.

CONSIDER UPSTREAM AND/OR DOWNSTREAM INTEGRATION

Fundamentally, the final price a consumer pays for any particular agricultural product must compensate every participant in the value-chain that created and processed that product for their investment and efforts. Practically, not everyone in the value-chain is able to generate a profit from their endeavours all of the time, however, in the long run the principle of profitability must hold true or otherwise the industry works its way into extinction.

The ability and opportunity for a producer or grower to integrate either upstream or downstream in the value-chain provides for the opportunity to acquire a greater proportion of overall profits available. Additionally, many value chains are mirrored in nature. This means that when one participant(s) in the value chain is profitable, the other participants(s) are suffering losses. A strategy of integration thereby allows of the blending out of profit returns, so that in theory different segments of an integrated business off-set each other.

By far the greatest potential that is unlocked by integration is the opportunity to secure production supply, at a particular specification, and by extension product marketing and sales.

INNOVATION IS A NORMAL PART OF DOING BUSINESS

Pursuing an on-farm innovation strategy achieves two strategic ends: 1) it provides for the systematic investigation of new production opportunities which provide the potential of capturing a new market and thus the benefits of being first there, and the financial returns that come with that position; 2) a structured and systematic approach to innovation acts as a "bad-idea" safety value whereby new ideas are pursued in a controlled manner, without risking the farming operation's short or long term viability. Simply put, ideas can be incubated and tested and failure can be tolerated.

Consider Ian and Vicky Mayberry (Case Study #11), who budget for experiments with new techniques and invest in new genetic lines for their goats. Brian Wiley (Case Study #4) keeps right on top of the newest techniques and product lines. Innovation in product lines, marketing, and new production techniques is also a major contribution to the success of John and Barbara Neufeld (Case Study #9) while Robert and Francis Bierhuizen (Case Study #10) think it prudent to "Always have a couple of [new] plants in your pocket".

Innovations can be revolutionary but are usually incremental in nature. Innovation also is not limited to farm husbandry. Innovation can take the form of new packaging, new marketing channels or the application of established products for new uses. It can also be new application of technology or operational processes to on-farm activities. Innovation can also be imported through the introduction of foreign practices into the domestic market. Innovation can also be purchased from other developers and investors who are looking to have their new product or process commercialized.

APPENDIX A: PRODUCER & GROWER CASE STUDIES

PRODUCER & GROWER CASE STUDIES

To assess the concerns that Ontario producers and growers had about North American and Global business conditions, and learn more about their coping strategies, we interviewed 12 of them who were regarded by their peers and commodity associations as being particularly successful in the current economy – the aftermath of the Great Recession as some journals like The Economist describe it and the slow recovery that has come after the worst of the 2009 slump.

Producers in the following sectors were interviewed.

1. Red Meats:
    a. Beef;
    b. Pork;
2. Grains & Oilseeds:
    a. Wheat & Corn;
    b. Canola;
3. Supply Managed Commodities:
    a. Dairy;
4. Fruits & Vegetables:
    a. Apples, Sour Cherry, Asparagus;
    b. Potatoes;
    c. Vegetable Greenhouse (seedless cucumbers, peppers & tomatoes);
5. Grape & Wine:
6. Horticulture:
    a. Plants & Ornamentals;
7. Alternative/Specialized Commodities:
    a. Dairy Goats; and
    b. Organic Vegetables.

In the interviews with producers and growers, we discussed the present economic conditions and their impact in their sector, followed by a summary of some of the industry concerns about these same conditions. Further, we provided a profile of the interviewed producer or grower; and noted some of their specific concerns about their sector and own operations. We then outlined their strategies for dealing with the current situation and relayed some of the broader advice they felt they needed to share about going forward.

We also determined whether the bundle of concerns and problems were more of a Global issue, or a specific North American one for any given sector.

CASE STUDY 1: RED MEAT – BEEF

PRIMARY CONDITION - PROTECTIONISM/NON-TARIFF TRADE BARRIERS

Other jurisdictions are more likely to toss regulations in the way of imported beef to protect their own producers; making it more difficult for Ontario cattle and beef to be sold inside the United States and other countries.

SECONDARY CONDITION: VOLATILE CURRENCY MARKET

While the Canadian dollar was trading at a fraction of the US dollar for over 30 years, in recent years they have been close to parity. The stronger Canadian economy and the resulting stronger Canadian dollar, has made Canadian-made goods more expensive in the United States.

SECONDARY CONDITION: DIMINISHING FISCAL STIMULUS

Virtually all governments in Western Europe and North America are under severe financial strain because of years of deficit spending, with the added pressure of increased expenditures brought in to defend against the impact of the Great Recession. For European and North American governments, there will be tremendous pressure to curtail their spending or risk a return of a recession – or worse.

CLASSIFICATION OF ISSUE

North American Issue

SITUATION SUMMARY

- An increasing Canadian Dollar.
- Higher fuel and grain/feed prices.
- Growing protectionist sentiments in the US.
- Ontario beef industry is export dependent to the US market.
- The US is our biggest domestic and international competitor.

The expectation is that an increasing appetite for protectionism and non-tariff trade barriers will make US markets harder to reach for Ontario's beef. There was already evidence suggesting stricter interpretation of regulations from Washington making border crossings more difficult; and that US cattle producers remain ready to encourage more of these tactics and pressure.

Ontario cattlemen will remember that the Country-of Origin-Labeling (COOL) regulations led to an action at the WTO and the ready eagerness of the US to close its border to all Canadian beef imports after BSE was reported in Alberta in 2003. Moreover, the discovery of three cases of BSE in American cattle since that year has put a major dent in American beef exports, forcing more of their packers to concentrate on providing for their domestic market.

Many Ontario producers were comfortable with the decades of a lower Canadian dollar, which made their prices more attractive to the US market, and this tended to discourage adopting more efficient and competitive practices. The near parity of the Canadian and US dollar since 2007 has been a major challenge.

Unlike the US and most Western European economies, Canada was more resistant to the economic downturn. The basic strengths of our banks and the smaller proportion of government debt left the Canadian economy in better shape. However, faced with the widespread panic and unease in 2008 the Federal Government announced a stimulus package. But after three years, not all of the earmarked funds have been spent.

The issues thought to be of greatest concern for beef producers are the higher value of the Canadian dollar, growing prices for fuel and feed grain, and the current protectionist instincts of the American beef industry.

Prices per hundredweight tended downward through 2009 and the overall volume of sales has diminished since the middle of the last decade. This implies that input costs as well as competition from Alberta and the United States is steadily eroding Ontario's position. Ontario produces enough beef that it must export to a North American market, thus trading in US prices.

In sum, the beef industry is experiencing difficulty and is likely to get worse before the American economy recovers to pre-recessionary levels.

BEEF PRODUCER PROFILE

The beef producer we interviewed was Andy Ernewein of Walkerton, Ontario. He raised hogs and ran a beef operation of some 80 cattle with his son – which he sold to him some years ago. Now he 'back-grounds' 95-100 weaned calves every winter before sending them on to grass or feed lots. He produces his own feed, and sells the excess in the spring.

He also runs a sideline, using a small local abattoir to undertake custom kills for meat that he markets himself.

He has been farming for many years and had experienced first-hand the effects of the economic fluctuations of the 1970s and 1980s, when inflation and high interest rates had been a major problem. He has seen these problems threatening his industry before and had much advice on what to expect going forward.

CONCERNS

Andy does not send his cattle down to the US much anymore; instead he has found new ways to market his product locally. He is also concerned that margins are declining. Beef prices are slightly higher than they were two years ago, but so are input prices; and beef prices correct faster than input costs do. He is also not optimistic about Ontario's new Risk Management Program; believing that it will drive down overall prices simply because buyers know it exists and will press for discounts on the assumption that the insurance program can make up the difference. Producers simply will not get more. Andy also openly wondered about whether the Risk Management Program will simply be the next lighting-rod for American producers to attempt a re-launch a countervailing and anti-dumping trade action against Canada, particularly if they lose the COOL legislation challenge at the WTO.

Andy observed that his sector had three separate constituencies – calving operations, weaning operations and feed lots. He also observed that times had never been good for all three at the same time (when one component is doing well, it is usually at the expense of another one); but a united front in the industry would be more important than ever in the coming years. The different communities of beef producers in the province face similar problems and must look for common solutions.

Andy also had much experience with volatile prices and higher interest rates back in the 1970s and 1980s, and gave advice for anyone just starting out – find something else to do on the side. Andy said, "What happens when you take 100 head of cattle over the winter and the price for them is the same as you paid for them in the fall? You are out the price of feed. Don't quit your day job." He strongly emphasizes the value of having an off-farm income, especially for small farmers or ones who are just starting out. Andy also stressed the need for producers to be patient and not try to build a huge cattle operation all at once. Producers should build a beef operation based on their financial resources and existing asset base. He stressed that most producers farm because "'they love the way of life'; don't risk that by over extending yourself, don't be fooled by today's low interest rates, they are going to go up" Andy stressed.

There were memories of the very high interest rates of the 1970s. "Some people and governments are so deep in debt, they can't get out of debt with a zero interest rate. What sort of farmer that is that deep in debt with low interests is going to survive when they go back up?" He added later, "It is 3 percent interest now, what happens [to you] if you face what we faced in the past with interest rates at 24 percent? Even 10 percent might kill you."

Like almost all farmers, he was cautious in personal financing – recommending Beef producers avoid the use of competing lenders as they all have different interests and instead relying in a single source provided that it can meet your needs. If inflation comes, it makes previously secured capital more valuable, but caution is still needed.

STRATEGIES

Andy's own survival strategy has four foundations – staying small, producing his own inputs, a tight hand on expenditures and innovative marketing. A beef producer who runs 400 head has a full time job and can't develop some of the approaches Andy has undertaken. From a point of view of financing, a smaller operation is more resistant to fluctuating interest rates. "So you're paying 3 percent a year now, what happens when you could be paying 24 percent? Don't go nuts". He repeated this point twice in the interview; Andy is passionate about debt control and management.

Andy has adopted an approach to support his farm by emulating some organic-farming strategies while not getting tied to organic production cost structures; although these were also partly a result of some personal convictions and observations rather than a marketing tactic. He avoids using growth hormones in cattle, describing his livestock as 'drug free' (growth hormones). While observing that many cattle 'muscle up quite well' on growth hormones, his personal conviction was that the cattle industry was in bad shape because of the practice.

He opened up a profitable and growing custom kill business line, dedicating a significant portion of his herd to that business. His sales strategy involved a principle of utilizing personal contacts and directly marketing his own goods to "people who appreciate knowing what they are buying and who they are buying it from." Andy was also selling custom cut meats, taking about 350 kgs of dressed meet into personally pre-packaged boxes of assorted cuts (each of 50-60kgs). Realizing that some traditional products (like soup bones, chuck steaks, etc) have limited commercial appeal, these would be stripped and added to hamburger – which has brought appreciative remarks and high praise about its taste and quality.

Andy observes that customers like the idea of hormone-free grain-fed meat; and he is employing the strategy of word-of-mouth marketing very successfully. His customers promote his business for him.

In short, Andy has found a way around US protectionism. "If you can't sell so much beef the old fashioned way, try a new way." A strategy of providing a superior product at a cheaper price was also matched to direct marketing. Besides an existing small client base of repeat customers, he also directly sells in the summer on campsites, recreational trailer parks and to cottagers again all by word-of-mouth marketing.

The main challenge in this practice is that small producers are always challenged to survive, but can cope by going directly to the consumer. Risk management programs by conventional large buyers can guarantee large producers a reliable break-even point; but this always was a threat to small producers who can't manage the same economies of scale. This strategy of direct marketing lets the producer side-step issues of shipping, tariffs, etc, by meeting consumers face- to-face.

Specializing in cattle was a marked contrast to his earlier experiences with hogs. As a beef producer he could grow 90% of his own feed – and found the argument "Grow what you feed and feed what you grow" was both a realistic personal philosophy and a useful marketing slogan. It is also a way of keeping control on his costs.

CORE RECOMMENDATIONS & ADVICE

- If the industry cannot sell so much outside the province, find a way of selling your own beef here.
- Pick your customers carefully.
- Market traditional products in a new way, by making small changes that are more appealing to consumers and make the product more cost effective.
- Word-of-mouth marketing works.
- If you are small, emphasize quality over quantity and look for customers who will appreciate it.
- Do not rely on risk management programs designed for your industry if your operation is smaller than average.
- Be prepared for inflation by keeping your debts under control and have another source of income off the farm if you are a small operator.

CASE STUDY 2: RED MEAT -- PORK

PRIMARY CONDITION - PROTECTIONISM/NON-TARIFF TRADE BARRIERS

Other jurisdictions are more likely to toss regulations in the way of imported hogs and pork to protect their own producers; making it more difficult for Ontario product to be sold inside the United States.

SECONDARY CONDITION - VOLATILE CURRENCY MARKET

While the Canadian dollar was trading at a fraction of the US dollar for over 30 years, in recent years they have been close to parity. The stronger Canadian economy and the resulting stronger Canadian dollar, has made Canadian-made goods more expensive in the United States.

SECONDARY CONDITION - DIMINISHING FISCAL STIMULUS

Canadian governments will be under severe pressure to curb deficit spending; this is going to significantly constrain the development of new programs and reduced spending on current programs.

CLASSIFICATION OF ISSUE

North American Issue

SITUATION SUMMARY

- An increasing Canadian dollar.
- Volatile feed, energy and related input costs.
- US protectionist instincts are growing beyond the impulse already seen in Country-of-Origin-Labeling and other measures seen in the last decade.
- This is an export dependent industry which faces competition in international and domestic markets from Quebec, Manitoba and the US.
- The US is the dominant market for Ontario's pork and hog exports.
- Ontario production costs are uncompetitive in North America and face tough competition from Quebec pork 'imports' in Ontario due to Quebec's ASRA Income Support Program.

The problems faced by beef producers is virtually identical to the one faced by pork producers. We anticipated major problems with protectionism and non-tariff trade barriers, a result of North America's unbalanced distribution between hog producers and slaughtering facilities and the concentration of consumers in the US. Competition from Quebec, Manitoba, and the United States domestically and internationally has also intensified. Difficulties continuing from the strong Canadian dollar against the US; and there is a diminished likelihood of the Federal Government heeding calls for support.

Competition with the US was already difficult with a 65 cent Canadian dollar, particularly given the economies of scale available to some massive American operations, and cheaper input costs in terms of feed around the US Corn Belt. If anything, these conditions have worsened. First, the Canadian dollar rose against the US dollar, and the protectionist instincts kicked-in for US hog producers once the Great Recession began. To compound matters, Ontario's biggest buyer of hogs began the process of shifting its operations to Manitoba before the Great Recession began.

Now, however, as an example of how economic conditions can be likened to a storm, what looked to be an over-supply in Canada has reversed in that Canadian processors are short of pigs. The developments of the last few years and high input costs have closed many producers down and led others to curb their output.

PORK PRODUCER PROFILE

We interviewed a pork producer, Bruce Hudson, who is located near Ottawa, Ontario, who runs some 200 hogs – in a farrow-to-finish operation – and also runs 1,000 acres for corn (including sweet corn), soybean, wheat and vegetables. A sixth generation farmer, with roots on this particular land going back to 1883, the grain crops let him beat feed prices by growing all of his own; although sometimes he could make more money selling the crops than by feeding them to hogs, but that is the nature of the industry at times.

CONCERNS

The high Canadian dollar and Country-of-Origin Labeling in the US were initially mentioned. Like virtually all Ontario pork and beef producers, Bruce was highly aware of the problems with exporting hogs to the United States.

Bruce mentioned that the Ontario pork sector had become too used to a low Canadian dollar and was finding it very hard to be competitive; that the domestic market in the province was too small and there was a growing lack of processing capacity. However, Eastern Ontario producers have long found it less competitive to ship hogs to the GTA than other Ontario producers and are in a natural catchment area for Quebec processors.

Bruce was close to Quebec and had a working relationship with Olymel. For its part, processors in Quebec have long been interested in Ontario suppliers, who tend to be adaptable and responsive to changes in requirements – whereas the Quebec's producers were more inclined to keep to the status quo in terms of production practices. Quebec also does not ship hogs into the United States, but they do ship pork. It is more difficult to muster the required support to mount a trade action in the US against Canadian pork exports.

For farmers in Eastern Ontario, the Quebec market gives them a better price and gets access to the Northeastern US market. It has been noted elsewhere that American farmers in border states might call their congressmen if they see a truck hauling Canadian pigs, but do not seem to feel as threatened by a refrigerator truck carrying processed product.

About 10% of Bruce's production is also earmarked for local markets.

One does not need to scratch very deep to notice a lot of weariness among Ontario hog producers over the market uncertainty they have experienced in the last few years. While processing plants might be scrambling for every hog they can deliver this year, that might not be true the next.

However, Bruce felt that the purchasing strategies that the retailers were forced to adopt to ensure their own survival were in part responsible for the shrinkage of the whole industry. Ontario producers have been experiencing difficulties for so long that their numbers are unlikely to contract further – "We are down to the hard survivors now." He cautioned that many producers are not thinking ahead and do not trust the industry.

Input costs also have to be closely watched, even with growing their own feed. Another hog producer observed that "thirty years ago, the price of feed was $1.68 a kg, less than half of what it is today and the price of pork is the same." While corn and hog prices might be forced down, this is not as often the case for fuel costs or electricity, two commodities hog production is dependent upon.

STRATEGIES

Bruce's main strategy in coping with the situation in Ontario over the last few years was his supply connection to the Quebec hog processing market.

Bruce had also paralleled some of the directions taken by the beef producer. He cultivated relationships with local suppliers and small buyers. However, he noted that a lot of the small slaughter operations are in trouble these days too, and he must make deals that accommodate their interests as well. At least 10% of his hog sales were to the local market; where the rest of his product goes to Quebec.

While Bruce also observed that nobody in the supply chain has the producers' interests at heart, therefore, a producer needs to integrate forwards and backwards.

Flexibility and adaptability was the unanimous strategy of all red-meat producers interviewed during this study – regardless of whether it was their main priority or a secondary one. One had switched from cattle to hogs and back to cattle; the two pork producers kept a lot of acreage in corn, soybean and wheat and were prepared to rapidly shift their priorities – stressing crops over meat and vice versa as circumstances warranted.

All the interview subjects involved in the red-meat business placed a stress on independent, innovative and flexible marketing by individual producers; but at the same time both pork producers hoped for a new marketing-board type organization that would place a premium on finding new markets. As one observed: "I'd like to see an organization that strictly seeks out marketing for its producers overseas." More specifically, it would seem they want a producers' organization that could enter into international contracts, and not just be concerned with promotion.

Like almost all farmers, Bruce's concerns with finances and management were strong. Management has to be hands-on and "We're back in the barn again" to closely watch input costs and adapt them quickly as circumstances arise. Specialization was to be approached cautiously (e.g. raising weaners) as inputs must be specialized too, and the farming operation was too dependent on a single business stream. Although Bruce is an integrated farrow-to-finish hog producer, raising his own feed and growing cash crops does let him have substantial control over input costs and diversifies his operating risk.

Growth has to be modest, as debt load must be kept to a minimum and one should lock into low-interest rates whenever possible. Only this gives the flexibility to take advantage of small opportunities without dangerous exposure if interest rates rise again.

Bruce has adopted some sound practices: 'If the front door is sealed up, go around the back way; if one game is over, try another one; and in an uncertain situation, be certain of your own strengths.'

CORE RECOMMENDATIONS & ADVICE

- Play where you can win and get rid of distractions.

- Be flexible and adaptive, not locked into one model. What was successful one year might not be so the next.
- When times are hard think about serving the market that is closest to you, not the one you always did before.
- Consider the needs of your buyer and be ready to meet them.
- Watch your finances closely, lock into low-interest rates wherever possible.
- Choose your financial institution carefully.
- Watch input costs closely and adapt yourself accordingly.

CASE STUDY 3: GRAINS & OILSEEDS: GRAIN

PRIMARY CONDITION - VOLATILE COMMODITY MARKET

In the last four years, prices for grain have remained unstable thus creating difficulty in to predicting price levels.

SECONDARY CONDITIONS - VOLATILE CURRENCY MARKET

To add to the variations on price, the increasing Canadian dollar has made the Canadian product less attractive, despite the high demand.

SECONDARY CONDITIONS -VOLATILE FINANCIAL MARKET

The world's financial markets remain unsettled thus commodity speculation – particular in grain – one of the few attractive short-term investments and is sending prices to all-time highs.

CLASSIFICATION OF ISSUE

Global

SITUATION SUMMARY

- Environmental activists' dislike of genetic engineering and products (although Bill C-474 was defeated).
- Vulnerable to government changes in ethanol policy.
- Cannot compete with US Farm Bill programs.
- Under-developed and under-utilized hedging strategies; in extreme circumstances the inability to forward contract with grain companies due to their financial constraints.
- High exposure to increased input costs, particularly in terms of fertilizer and fuel.

Grain prices have never been higher, thanks in part to a combination of rapidly increasing Global demand, increased commodity speculation, and shortages of production. Governments are starting to pay closer attention to grain stocks and grain production than they have for decades – if only because of the attendant risk of political instability in some critical parts of the world (primarily the Middle East) and a commensurate increase in crude oil costs. The commodity speculation is also a direct result of the collapse of much of the financial industry and the shortage of investment opportunities that provide suitable short-term return potential.

What goes up generally comes back down almost as quickly. Global grain prices peaked in late 2007 and early 2008, and were abruptly brought down by a multibillion dollar intervention by the United States and Great Britain. By late 2010, grain prices had climbed back up to an even higher peak and look to increase still further through 2011. Rapid price swings are bad for markets; the rapid fluctuations in price have caught many growers at a disadvantage.

Input costs are high and going to remain that way, particularly nitrogen based fertilizers and fuel for farm equipment. As has often been noted, farm revenue fluctuates with the market much more quickly than farm expenses. The cost for a ton of grain will change more quickly than it will for a ton of fertilizer, or a 1,000 litres of diesel fuel.

What is true for grains is generally also true for other crops such as corn and soya beans.

Generally under such circumstances businesses use natural hedges to lock in a percentage of input costs and selling prices. While cash croppers can hedge some of their input costs over terms longer than one year, they cannot typically hedge their selling price longer than one year. This creates a mismatch and intensifies business uncertainty.

GRAIN GROWER PROFILE

A farmer to the east of Ottawa, Arnie Hakvoort, runs 1,800 acres cropped for corn, soybeans and wheat. He owns two farms and is selling his first farm to his son while his son-in-law would be getting the second within five years. The first farm -- Hog Haven -- runs 225 sows in a farrow-to-finish system, the second farm – Acre Ridge – runs and additional 150 sows. While Arnie operates an integrated crop and livestock operation, for the purpose of this case study we will be concentrating on the crop side of the business. Arnie's comments and advice respecting the hog industry are blended into Case Study 2.

Of his crops, the wheat is for seed production, the soybeans for feed production and for the crush market. Of the corn, 300 acres is dedicated for hog feed (to be expanded to 500 acres), and the rest is earmarked for sale. Arnie uses an extended family business model, with Arnie providing mentoring, advice and support to his family partners.

Arnie has been happy with results for the last four years, stating “Cash crops have been good with crops and prices for four years”. However, Arnie doesn’t expect good conditions to remain. Arnie also now sells pork entirely for local markets, in cooperation with a local abattoir, they directly service the pork needs for the high-end restaurant trade in and around Ottawa. As many cash croppers say, ‘hogs and cattle are merely corn, soya beans and grains walking around on four legs’.

CONCERNS

Input costs are Arnie's major concern. Four years ago, pork ceased to be as profitable as it once was, and instead has concentrated more on grain. It was the diversification into crops that balanced off the losses in the hog side of the farm operation.

Arnie mentioned ethanol, pointing out that corn could be used either for silage or ethanol easily, but he expressed reservations about the long-term viability of ethanol and the government's commitment to ethanol subsidies. Ethanol is directly competing with livestock production and the demand for ethanol is principally responsible for the increased food prices around the world. The use of food crops for fuel production may not last and may not be sustainable given global food needs and demands.

More immediate concerns were about the price of land, particularly for the operator who was still expanding. Land prices in his area have doubled in the last five years and land cannot sustain its cost through basic farming alone, it has to be able to support another operation. He warned that buying land just to produce corn will not be self-sustaining if the ethanol demand drops, and if that happens, a farmer would be left holding the bill for over-valued land. Arnie added, "If they pull the plug on ethanol and ethanol is turned off, prices will plummet immediately. If you are fairly highly leveraged by buying land, you're in trouble." Arnie added that the same risk is present if interest rates go up.

Arnie mentioned government support programs (specifically the Quebec ASRA program which never had an Ontario counterpart) and his general view was that all government support programs were seen as too strained and: "The up and down cycles are too big, and coming too fast now. No government can keep up." Even Quebec is finding it exceedingly difficult to maintain ASRA.

He added two other note-worthy points. There has to be a new price paradigm now as "the era of continuously cheap food is over, the price of food has to be tied to the energy market." He also pointed out that there used to be a vibrancy in agriculture, but now "It's like everyone's burned out, but farming should be a passion."

STRATEGIES

For the Hakvoort family farming is about working and enjoying a lifestyle that is rooted on the farm. Arnie has adopted strategies seek to safeguard and protect that lifestyle not only for himself but for the next generation and he follows two simple principles: 1) manage your debt well, don't get over-extended; and 2) drive-in every efficiency possible in order to maximize the productivity and returns on the entire farming asset base. For the Hakvoort family this is basic common sense. Arnie also believes in a strategy of diversification, crops and livestock; integration, crops produced for feeding his own livestock; and down-stream expansion, direct custom meat sales.

By involving his adult children early on in the farm business, Arnie has achieved a long-term succession plan, greater operational economies-of-scale, productivity and as a result business profitability. Practical management is Arnie's strong suit, "We don't cut costs as far as crops are concerned, but we don't go nuts." He uses fertilizer economically, using enough and not lavishly. Not all land productivity is the same. Arnie's farming practices focus on investing in crop inputs for land that has a proven track record of productivity, and investing less heavily in inputs for land that is more marginal. Arnie, stresses that cropping requires constant attention and fine-tuning of production practices to maximize field yields.

Critical to this strategy has been the farm's underlying asset base and how it has been used, and expanded over the years. The largest land purchase Arnie has made was 400 acres, and the expansion of his holdings was done slowly and carefully – usually locking into low interest rates for ten years and remaining patient to utilize opportunities. He dislikes debt and keeps his debt load to a fraction of his asset base ("Lower than most farmers, because the banker tells me I'm pretty prudent", he observed). In short, buying land for today's 'big thing' had better not leave you exposed if that big thing collapses.

Arnie maintains that a new price paradigm is needed and the era of cheap food is over. The price of food must be tied to actual production costs. Arnie sees hope that consumers at large are beginning to recognize this need. The trick is staying in business long enough to reap the benefits of that mind change in the marketplace.

CORE RECOMMENDATIONS & ADVICE

- Maintaining liquidity.
- Reinforcing success; give your best support to your most productive asset.
- Driving in efficiency and productivity.
- Building a business and succession model around an extended family.
- Not place your hopes in government support programs; use them – but don't expect them to be fast or responsive.
- Keeping your side lines open and paying attention to new market opportunities.

CASE STUDY 4: GRAINS & OILSEEDS: CANOLA

PRIMARY CONDITION - PROTECTIONISM/NON-TARIFF TRADE BARRIERS

Some jurisdictions, such as China, have put in place import restrictions on Canadian canola specifically from regions that are subject to Blackleg fungal infection. This limits export opportunities in jurisdictions that themselves suffer from the same biologic problem.

SECONDARY CONDITIONS - VOLATILE COMMODITY MARKETS

In the last four years, commodity prices have been fluctuating over an enormous range; making it difficult to anticipate selling prices. Canola is actively traded agricultural commodity. As such, it has been subject to speculative trades by institutions and investors that view canola as a potential investment instrument that will yield greater returns than other traditional financial instruments. Therefore, canola may be subject to sudden and dramatic pricing swings based on the short term investment decisions of these traders rather than on agricultural supply and demand fundamentals.

SECONDARY CONDITIONS – VOLATILE CURRENCY MARKETS

Notwithstanding the Blackleg issue as noted above, Canada is known for its canola production and sells that production internationally, often as pressed canola oil. As such, the domestic price for canola seed is dictated by global supply and demand forces as well as speculative forces. Canada's strong currency position makes Canadian canola more expensive to international buyers. That said, there is the potential to mitigate the impact of the Canadian dollar.

China is a major global buyer of canola seed and oil. China is also a country that maintains tight currency exchange controls, specifically undervaluing its national currency the Yuan relative to other hard currencies. There has been increasing pressure on China to allow its currency to appreciate in value. The Chinese government has conceded to this pressure and is allowing for a gradual and controlled appreciation on the Yuan. Such an appreciation will actually reduce Canadian canola prices for Chinese buyers thereby making exports to China more viable in the future.

CLASSIFICATION OF ISSUE

Global

SITUATION SUMMARY

- Bill C-474 was a threat to competitiveness by amending seed regulations to alter the way crops derived from genetic modification are regulated; while the bill was defeated, the attitudes behind it remain.
- High input costs, including land.
- China's requirement for a phytosanitary certificate verifying that the canola is free of Blackleg.
- The Canola industry in Canada needs to improve its coordination to penetrate international markets more consistently.
- The industry tends to take a short-term profit-taking approach rather than a long-term investment in customer relations.
- Limited and unsophisticated commodity hedging strategies.

One of the primary conditions of the world's economy in the aftermath of the Great Recession is the attractiveness of commodity speculation as one of the few areas where investors can reasonably expect to make a safe profit, given that so much money is invested in government bonds – often by government buying their own debts, resulting in depressed returns. The commodity speculation, has resulted in the highest food prices ever recorded. This is generating political instability, particularly in the Middle East, which is keeping energy prices higher than is otherwise warranted. This in turn is adding to the costs of raising crops.

The instability is unwelcome especially for grain and oilseed farmers. While prices may rise, so too do input costs and when oilseed prices fall, rarely do input costs fall in lock step. This creates high levels of uncertainly and unpredictability. Growers are often forced into the decision of, "do I sell now or wait?" Waiting may mean getting even higher prices or losing profits that could have been achieved.

China, and other countries were buying all they could last year (waiving elements of the Blackleg-free certification requirements for 2010), and production in other major producer countries has fallen off. As the market stands, Canadian canola farmers produce should be able to find a market.

This high demand for canola is ideal for Ontario producers; however it may be a short-term boom. There are many historical examples in Canadian agriculture where a vibrant and expanding sector operated without considering the reforms and changes it would need when the situation changed. This is the time to start investing in the industry's competitiveness.

The widespread distrust of genetically modified products remains in the environmentalist lobby. Bill C-474 might have been defeated, but the attitudes behind it remain. A defeat in one year just means another attempt to enact similar legislation later.

CANOLA PRODUCER PROFILE

Brian Wiley of Meaford, Ontario is principally a canola grower. He works 1,100 acres (300 of his own and 800 leased – from 16 different owners) of canola, wheat, corn, soybeans, and hay. Of the acreage he works, 400 are given over to feed for a dairy herd and the rest are cash crops. His priority on canola was reinforced last year by winning a competition, among his colleagues, by producing 4,350 lbs of canola per acre; using a new strain of seed. Brian is a recognized leader in the management practices for the growing of canola in Ontario. He has a tradition of testing new methods and techniques to find the best mix that achieve maximum yields.

CONCERN

The immediate concern was uncertainty, especially with respect to the prices of fertilizers, herbicides and other crop inputs. He observes that when crop prices are up, so are input prices; but when crop prices drop, input prices tend to remain constant. The imbalance between the two makes it possible to lock in sales through hedging a year out, but a farmer can only lock in expenses six months or so ahead of time.

The unpredictability of commodity speculation by so many brokers and investors with no knowledge of the industry has the potential to be extremely damaging.

Like many producers and growers Brian is extremely concerned about land prices and valuations. Both are out of step with the value the land can generate through cultivation, not just canola but any crop for that matter.

Without doubt, canola markets are strong. However, Brian is concerned about those growers that expand their operation based on current market conditions. "One can't build a business model on today's prices and expect the cost structures to stay the same for a decade". Similarly, today's unprecedented low interest rates may be the encouraging growers to expand too quickly or to over pay for assets such as land, that may be subject to a future value correction downward.

Brian also expresses concern over the long-term view traditional banks have with respect to agriculture. He has seen banks move into the sector and move out of the sector. While that may work for the banks, it certainly does not work for the grower. Growers need stable financial partners that are committed to the growers' long-term success. And while agriculture, and specifically canola is on the up-swing now, in agriculture a reversing trend can always be spotted on the horizon.

STRATEGIES

Brian stresses that successful growers share the common characteristic of being committed to agriculture as a way of life and ensuring that no short-term action is taken that will risk the long-term goal of maintaining that lifestyle. In short, growers need to stay focused as to what really matters and not lose sight of the big picture.

For Brian, half the battle in addressing today's Global and North American business conditions is simply showing-up and doing so early. All of these issues eventually work their way down onto the farm, one way or the other. In order to deal with them effectively one needs time; time to think; time to plan; and time to put those plans into action. Farming is not a part-time endeavor for Brian.

Additionally, Brian stresses the need to build an efficient farm. "Cut costs wherever you can and be creative about it", says Brian. "Get your yield per acre up, and the rest will take care of itself usually", he added.

In order to deal with excessively high land purchase costs, Brian has effectively employed a strategy of leasing much of his land. One does not need to own an asset in order to benefit from its economic use and productivity. Brian observed that a lot of land in the country side is owned by urbanites. Generally, these landowners are not so concerned about the revenue that the land can generate, rather they are interested in seeing that the land is not abused and that it is taken care of in a responsible manner. These landowners are looking for stewards of the land in the fullest meaning of the word.

Brian has found that an open and honest relationship with these landowners will quite literally reduce his operating costs. By explaining to these landowners about how he intends to cultivate the land, and how he plans to protect it, and invest in it, creates a bond based on respect and trust. These landowners respect Brian's approach which usually translates into reduced land rent charges. Just as importantly, if and when the time does come when the landowner wishes to sell the land, growers like Brian are usually approached first, often without ever putting the land on the open market. Being nice, polite and respectful is good business sense. It is a trait that is very natural to Brian and his family.

Likewise by leasing land from multiple landowners Brian minimizes his dependence on any single landowner as well as providing him with added flexibility when circumstances change and the amount of land utilized needs to be reduced.

Operational size is also critical. By having more acreage, it gives him better and more efficient use for machinery and equipment – affording economies of scale. The more land one can make use of, the better use can be made of one's machinery. The dairy herd gives more opportunities for crop rotation as well.

Brian seeks flexibility with his planting times, and prefers to get canola in early if at all possible. Planting to a traditional schedule is limiting, especially when market volatility is so prevalent. Canola might be doing well this year, next year it might not, but Brian has enough flexibility to adapt to circumstances and make the best use of them.

Brian also thinks that his cash-cropping success has been facilitated by being a dairy producer. The dairy farm adds diversification, flexibility and more predictability to planning. It also makes the purchase of farm equipment more viable and spreads the cost over multiple business streams.

Inevitably, proper debt management is essential; as is proper farm management – a farmer has to know his costs of production. Wiley also prefers to get involved with price hedging through grain elevators and avoids other buying options. Similarly, Brian is a strong advocate for the Commodity Loan Program and the Advance Payments Program for Crop Inputs. These government programs, that are administered by ACC Farmers Financial, help farmers with maintaining financial liquidity and assist in minimizing borrowing costs.

When it comes to financial institutions Brian is a strong supporter of Farm Credit Canada (FCC). FCC is the only financial institution that is legislatively mandated to operate in the agricultural space of lending. They present creative products at competitive rates and fees. Also, unlike other financial institutions that may exit the agricultural banking sector, FCC is there for the long-term.

The basics work: Good crop management, integration, debt management, forward contracting, and being flexible. However, he also pays close attention to professional journals and new equipment developments, trying to keep enough flexibility to take early advantage of new opportunities.

CORE RECOMMENDATIONS & ADVICE

- Flexibility – diversity of product lines lets a farmer optimize returns, take advantage of market opportunities, and guard against loss.
- Professional knowledge: Look for new opportunities and new equipment that makes existing operations more efficient.

- Don’t over-extend your credit with land purchases in boom times may end, leasing gives you more flexibility.
- Business is about relationships: Maintain the best possible relations with the owners you lease from and keep them closely informed – it builds better long-term relations and also provides new opportunities.

CASE STUDY 5: SUPPLY MANAGEMENT: DAIRY COWS

PRIMARY CONDITION -- LOW MONEY SUPPLY

Most banks (outside Canada) extended too much credit and held too many risky assets; and following the Financial Crisis, the Great Recession the availability of credit (money supply) to average businesses has been tight globally. This has made borrowing more difficult and has hampered the economic recovery.

SECONDARY CONDITIONS -- HIGH PUBLIC DEBT

Almost all governments, even in Canada, owe too much debt; which is weakening confidence by investors and consumers. The result is a strong demand to cut government spending or else we risk inflation and higher interest rates. Governments the world over are seeking ways by which to reduce their expenditures, and cut government programs. The natural consequence of this will be reduced employment, and by extension reduced consumer spending.

SECONDARY CONDITIONS – DEFLATION

In a recession and its aftermath, people spend less, which makes the value of currency drop and weakens the overall economy – this is more of an immediate risk in the US and Western Europe, but the Canadian economy is not immune to its effects. If deflation occurs, the value of all assets tends to shrink.

CLASSIFICATION OF ISSUE

North American

SITUATION SUMMARY

- The dairy industry is perhaps Canada's most complicated and capital-intensive agricultural sector. As such, a dairy farmer tends to be highly leveraged in percentage terms and carries high levels of debt in absolute terms. Recently acquired assets, such as land, are also subject to intermediate term deflation risk.
- The dairy industry faces buyer pressures to maintain or reduce milk solid costs (sale price) while facing higher production input costs.
- Dairy farmers' interests in maintaining their system of production and marketing is coming under challenge from other sectors that are seeking trade liberalization treaties between Canada, the European Union and countries of the Pacific-rim.

As stated, the dairy industry is highly capital intensive. In many respects, the dairy industry's need for capital is unlike any other agricultural enterprise. As with all capital intensive industries, there is a high vulnerability to capital availability as well as the cost of that capital.

Perhaps the greatest risk to dairy operations is a sudden and dramatic interest rate climb. This is particularly problematic for the dairy farmer that has pursued a debt strategy that does not provide for a broad enough interest rate window. An interest rate window being defined as a debt servicing range under which a farm operation's business plan remains viable.

Deflationary pressures particularly for assets not subject to normal depreciation expense, such as land, also presents a risk for dairy farmers which may find in future that they hold mortgages on land that exceeds its value.

Notwithstanding governmental commitments to the contrary, there is the ever present risk that governments will unilaterally renege on their promise to protect Canada's supply managed industries, in order to secure a broader free trade agreement with the European Union or the countries of the Pacific-rim collectively part of the Asia-Pacific Economic Cooperation (APEC). It has already been reported in the media that APEC considers Canada un-prepared to participate in an associational free trade zone because of some of its agricultural policies.

It is important to note that all commodity groups had the opportunity to form supply managed systems early on. Some chose to do so, others did not. There is an inherent injustice in exposing commodities that opted for a supply managed system to international competition when the system was never designed to operate in such an economic framework. That said, governments of all stripes are creatures of political expediency, therefore the dairy industry can never rule out the potential of having the rules changed.

DAIRY COWS PRODUCER PROFILE

Daniel and Kim Martin bought a turn-key dairy operation near Gowanstown in southwest Ontario. The farm represents their first independent venture into agriculture, though they both came from farming families. Operating a herd of 50 dairy cows, the Martin family also grows their own feed and fodder on accompanying lands.

CONCERNS

Daniel and Kim are a young and energetic family that is passionate about farming, their religion, and the way-of-life farming offers. Before purchasing their existing dairy farm in 2000, Daniel and Kim engaged in a comprehensive financial assessment exercise to assure themselves that the dairy farm was a viable farming venture and would be profitable.

Daniel realized that dairy farming was an expensive undertaking in terms of the capital outlay required to get started. In order to ensure the operations viability Daniel realized that the debt servicing structure was extremely import and could be the difference between a successful venture and a failed venture. Daniel learned that lesson the hard way.

During the first year of operation Daniel and Kim realized that something was wrong. There debt servicing schedule was too aggressive. Far too much of the farm's revenues were being ploughed back into debt servicing. Clearly, Daniel's first lender had failed him. As a result of a number of unrelated circumstances Daniel refinanced his operation with Farm Credit Canada (FCC) and the first debt structuring error was fixed and provided his farming operation with a more flexible solution.

This experience left its mark on Daniel. He recognized that an otherwise viable farming operation can be made unprofitable through no fault of the producers but rather through poor financial advice and execution.

Daniel has three main concerns: 1) productivity; 2) input cost control; and 3) sound debt management.

As an industry, dairy farming benefits from the ability to project into the future what revenues will be for a given unit of production however measured. Given that revenues per unit of production are largely fixed, producers must concentrate on the input side of their operation if they are to increase net profit. Profitability in the dairy industry revolves around cutting operating expenses no matter now trivial. It is a drive towards input utilization efficiency. Daniel stresses that input efficiency must be achieved while maintaining sound animal husbandry practices to ensure herd health and milk productivity, coupled with sound general management practices. In this respect, dairy farmers must bring together the animal husbandry practices of a livestock operator with the field knowledge of an expert cropper.

Input efficiency drives herd size. For a family operation, the optimum herd size is between 50 and 60 head at present. As dairy farmers adopt new technologies such as robotic milking, optimum herd size for family operations may increase to 120-130 head. That is a manageable load that should be serviceable by a single family without hired hands. Similarly, a herd size in excess of 100 head merits the equipment, infrastructure and outside hired help needed to run such an operation efficiently. The problem rests between those two ranges. Between 60 and 100 head the operation is too large to operate without hired help and additional capital infrastructure but too small to afford those operating and capital costs. Daniel stresses the need for dairy farmers to be 'right sized' from the start.

Feed, fodder and forage are the second major concern. Daniel stressed that cropping is not an optional activity for dairy farmers it is a necessity as every dairy farmer knows. Cropping is an activity that creates an input. The need for feed, fodder and forage also drives dairy farmers to invest so heavily in farm machinery. When nature dictates that seeds must be sowed, crops fertilized and treated, or harvested, dairy farmers cannot wait and must take action. The risk is simply too great, so equipment must be on hand when the optimum time presents itself. This is one of the greatest capital drivers for dairy producers.

STRATEGIES

The Martin family has transferable strategies for dealing with the challenges of dairy production in the current North American business environment.

Daniel stresses an on-farm continuous improvement process that is geared towards increasing productivity, reducing input costs and achieves efficiencies and economies-of-scale. The same effort on-farm goes into the sourcing of off-farm goods and services. Farming is a team approach equally dependent on the farmer and the services of veterinarians, nutritionists, crop specialists, and accounts and lenders.

The Martin family has also adopted the Family Inc. approach to farming in order to achieve the greatest operating efficiency. Daniel's father and six brothers are engaged in farming. They operate as a 'mutual assistance group' that lends a helping hand during times of need, or coordinates the tackling of large tasks such as harvesting in a manner that helps for all involved.

In most sectors, family businesses carry negative connotations and baggage. However, it would appear that in agriculture the strong ties of kinship and blood overcome otherwise self-interest motivations and actions in favor of the family's aggregate success. This is usually not the case in other business sectors where family businesses tend to degenerate into cannibalistic business environments where siblings live by the mantra "eat or be eaten".

With respect to the matter of debt, the Martin family adheres to sound debt management principles. They avoid over-leveraging, plan carefully to ensure that the farming operation can service the debt, and acquire and lock into competitive rates of interests.

Of particular interest is Daniel's approach to borrowing. The Martin's take a holistic and stepped approach to taking on debt obligations. They describe it as an escalator; and a debt matures and comes off (at the top) a new debt is brought on (at the bottom). This keeps debt levels under constant scrutiny and by extension results in debt acquisition planning. It also creates a blended interest rate on total borrowings, and is a buffer against interest rate shocks to the farming operation. This is very similar to dollar averaging in the financial services sector.

Like many other farmers, the Martin family are deferring some expenses as long as they can – particularly by striving to make milk cows last as long as possible to avoid incurring replacement costs (a Holstein cow will run between $800 and $2,000 and may produce 28 metric tons of milk during her lifetime – given up to date milking machinery and proper feed mixes).

Extending its productive life span is a solid cost reduction strategy when cost management is the principle strategy for operational success. This applies equally to dairy cows or tractors.

These are hard times to manage for dairy cow operators, but limiting risk and tight cost controls are winning strategies.

CORE RECOMMENDATIONS & ADVICE

- Keep debt under control.
- Close management – analyze your operation on a cost breakdown per liter, and on a per cow basis.
- Drive down costs, and drive in efficiency.
- Stagger term loan payments to keep due dates under control.
- Act as if your predictable revenues weren't there, and then re-examine your expenses.
- Rely on your family and let them rely on you.

CASE STUDY 6: FRUITS & VEGETABLES – TENDER FRUIT GROWERS

PRIMARY CONDITION -- WEAK DOMESTIC DEMAND

Weak domestic demand occurs when consumers are apprehensive and governments must cut spending, domestic demand shrinks and people take more care with their purchasing. Seasonal excess supply creates a price suppression effect even during a time of general food scarcity.

SECONDARY CONDITIONS -- VOLATILE CURRENCY MARKET

The weakened US dollar makes American imports more attractive to Canadians, while making Canadian exports less competitive. This creates the dual problem of Ontario producers having to compete in their domestic market with cheaper imports, and having to compete in foreign markets with a product that has a higher price point.

SECONDARY CONDITIONS -- SUBSTANTIAL EXCESS SUPPLY

In contrast to some agricultural commodities, the Ontario growers of most tender fruits can easily supply the provincial markets however they are pushed out of that market by high volumes of imports. The inability of consumers to often distinguish between domestic and foreign products exacerbates this problem. Likewise, given that "Buy Ontario" programs such as "Foodland Ontario" are largely voluntary and self-regulating they are thereby not as effective as the program could be otherwise. It should be noted that the program actually permits a limited degree of co-mingling of foreign product with Ontario product while still retaining the ability to participate in the program.

CLASSIFICATION OF ISSUE

Global

SITUATION SUMMARY

- High levels of competition in the fresh fruit market from low-cost production centres in Central and South America, as well as from the US (particularly from Florida, California and Washington State).
- Significant loss of canning and processing operations in Ontario.
- High variance in the quality of tender fruit grown in Ontario as compared to foreign imports weakens Ontario growers’ bargaining power with Ontario’s grocery retailers.

- Relatively high costs of production and low-volume deny growers benefits of economies-of-scale.
- Ontario growers are held to a higher food safety standard relative to other jurisdictions but must nevertheless compete with those products in the domestic marketplace.

While there is a desire on the part of Ontario consumers to purchase locally grown tender fruits and other products, consumers still demand that those fruits exhibit the same quality standards, both in visual appeal and taste, as fruits sourced from other jurisdictions. Moreover, these same consumers generally expect locally produced fruits to be priced more competitively than imports. The rationale being that they do not need to be transported great distances to Ontario grocery shelves.

Ontario fruit production has high degrees of variability in terms of quality characteristics. Many fruits are co-mingled from a variety of farms at cooperatives or distribution centres. This results in the "down-grading" of Ontario's entire production at the retail level.

Similarly, Ontario fruit crop is seasonal by definition. However, grocery retailers need product all the year round to meet consumer demand and expectations. This not only facilitates but it compels foreign producer relationships.

Lastly, Ontario fruit growers must compete with a variety of jurisdictions that provide subsidies to their producers in order to promote their product exports.

In many respects Ontario's fruit growers must compete on numerous unequal playing fields.

TENDER FRUIT GROWER PROFILE

The tender fruit growers interviewed in this study are Ken and Murray Porteous. This family business in central Ontario, which also includes partner Ray Vogel (Murray's brother-in-law), cultivates approximately 865 acres, comprising of ten farms in different locations ranging from Simcoe to Port Dover. Their two main operations are cherries (300+ acres) and apples (250+ acres), but they also grow pears, peaches and asparagus. Additionally, the Porteous family has an interest is a significant processing facility and has a strong business relationship with the sour cherry industry in the United States. Ken and Murray are recognized leaders in their sector and are exceptional entrepreneurs and innovators.

CONCERNS

Ken and Murray identified the issue of cheap foreign competition flooding the Ontario market as being their principal business concern and challenge. Foreign producers in South America enjoy comparative advantages in terms of input costs, land costs, and labour relative to their Canadian counterparts. They also benefit from generous direct and indirect export subsidies. It is also problematic that much of this fruit is of good quality, and that these jurisdictions generally have better and more extended growing climates and seasons. That said, Ken and Murray are philosophical about the situation and accept the realities of fruit cultivation in Ontario.

Murray and Ken are also concerned about the expectation from grocery retailers that the production bar can constantly be raised, in terms of year round availability and quality at constantly decreasing prices. It is simply unsustainable Murray and Ken observe.

Exceptional growers like the Porteous family also have to compete with other growers in Ontario that do not pay the same attention to quality and production. While the market is quickly making these growers unviable from a business standpoint they are nevertheless damaging the reputation of the Ontario industry both with retailers and consumers alike.

The virtual disappearance of the Ontario fruit canning industry has also been a severe blow to the sector. With the further processing or refining market tight, there is a high degree of competition at all levels as growers attempt to sell their crops.

The Ontario Green Belt Protection Act also damages the interests of growers. By restricting the land use of existing property along the Niagara Escarpment the Government of Ontario has prevented those marginal fruit farmers that want to sell their land for further development and exit the industry from being able to do so. Again, this ensures that at least some fruit growers are continuing to produce even though that would not be their first intension. The result is additional marginal fruit production since, barring the ability to sell their land for a non-agricultural use, they stay in production because doing so makes more economic sense than allowing the orchards to go fallow.

Lastly, the consolidation in the grocery retail sector has reduced the venues for fruit sales and has intensified competition to make it on to the store shelves. The strengthening of the Canadian dollar has also made imports cheaper and has intensified competition in an already competitive market.

STRATEGY

The Porteous family have an operationalized strategy that focuses on:

- asset expansion to achieve greater economies-of-scale;

- intensive capital and labour investment in orchards to increase fruit tree densities and yields per acre;
- capital investments in new fruit trees;
- proactive daily management in the deployment of labour and other operational resources in order to maximize daily productivity as measured by revenue generated;
- an obsessive drive to reduce costs and maximize returns;
- control investment in product innovation, based on comparative advantages in production;
- superior knowledge of their customers' customers;
- direct promotion to targeted consumer segments (mothers who want their children to eat fruit) based on customers' interests and needs;
- building of strategic business alliances; and
- down-stream integration into processing activities.

The Porteous family has given considerable effort to strategic development of their business and plan carefully and methodically. They are expanding, but select new farm properties based on the modernity of their systems and are constantly reinvesting in their production systems – earmarking considerable funds this year and next.

The current environment demands carefully managed growth. Getting bigger lets them spread capital costs more widely and increases the productivity of all their properties. They also pay close attention to modernization of equipment and techniques that allow denser acreage and more yield per tree.

Part of their management success is owed to a daily review of labour to assess productivity and the use of assets; combined with a constant collection of data from the orchards. This merits some explanation.

Every morning Ken and Murray determine the list of tasks that need to be completed. From that list they determine which activities will yield the greatest profitability given the market price of specific products, or given contractual commitments that are coming due. The daily tasks are then prioritized to maximize daily labour returns but it does not stop there. Once in the field, the supervisors gauge the productivity of the orchard workers to confirm that the orchard environment matches with the deployment decision made in the office. If after 30 minutes of work a mismatch is evident, the orchard workers are pulled from that job and assigned new more profitable work.

The objective is clear, "you have to get every possible cent out of your fields", such as collecting windfall fruit for juice, "it does not make sense to leave money rotting on the ground".

This requires close, hands-on management beyond the traditional techniques already demanded by good farming practice in this sector – such as constant pruning and close attention to replanting. This must be done carefully and timed right, as saplings yield no fruit until mature, but a mature tree's productivity can fall off very quickly.

They developed a niche market with one variety of apples, noting that their specific orchard locations seemed ideally suited to that particular apple variety. Other fruit growers have attempted to grow the same variety in the US and other parts of Ontario but did not achieve the same taste and quality profile and yield results. This apple variety is also difficult to cultivate and requires significant orchard management. This is ideally suited for the Porteous operation, given their management practices, but deters rivals from entering the same variety market. As such the Porteous family has found a competitive niche.

They also pay close attention to promotion, and do it very much "hands on"; they go to supermarkets and talk directly to consumers (especially with introducing them to one of their apple varieties). The essence of marketing is to solve a consumer's problem – in this case, giving their children an apple they actually will eat.

They are also experimenting with another niche market – growing fruits with pronounced anti-oxidant properties. However, despite all the literature in the general public about the virtues of anti-oxidants, consumer demand has not grown accordingly.

These initiatives are balanced against a solid diversification and risk mitigation strategy: They tend not to have more than 5% of their total production geared towards a new product line.

The other component of their risk mitigation strategy is to cultivate a close relationship with their banker. They keep their debt to equity balance low, and talk to their bank manager at least once a month to keep them up to speed on operations. The banker needs to be 'in the loop' and informed of your activities. A good banking relationship is built on trust, but your banker also should know exactly what you are up to and they really appreciate it when, " you don't use the operating line to buy a new summer boat!".

The Porteous family are members of a cherry pitting company -- one of three such operations in Ontario -- and so are part-owners of one of their buyers. They also maintain a relationship with a major cherry marketing cooperative in the United States, which is the sole market for their sour cherries (no substantial Canadian market exists). This lets them get involved in the growth of new product lines.

In short, given weak demand, they have established specialist products and personally market them. They have controlled their costs to the extent that they can still export product to the United States even in the current economic climate, and let nothing go to waste.

CORE RECOMMENDATIONS & ADVICE

- Careful and precise management yield economies, optimizes your use of resources and permits careful deliberate expansion; which adds to your cost efficiencies.
- Be flexible.
- Careful expansion and good close communications turns your banker into your ally.
- Manage your debt prudently.
- Let nothing you produce go to waste.
- Budget for capital investments every year and invest in new technologies.
- Invest in new products, but balance this against product diversification as a risk management measure.
- Careful business planning pays off.
- Pay close attention to marketing on both the macro and the micro level and be ready to hand out your own product in a store one day, and sit at the boardroom table of a buyer the next.

CASE STUDY 7: FRUITS & VEGETABLES: FIELD VEGETABLE GROWER

PRIMARY CONDITION -- WEAK DOMESTIC DEMAND

Domestic demand for field vegetables is driven by three factors: 1) seasonality; 2) grocery retailer demand and by extension consumer demand; and 3) domestic food processing demand, which may incorporate a degree of export demand, for processed or semi-processed product. Weak economic demand generally results in driving demand downwards in all three categories. Additionally, Canada's small consumer base and food processing sector, act as self-limiting factors in total possible demand.

SECONDARY CONDITIONS -- VOLATILE CURRENCY MARKET

Weak domestic demand is compounded by currency volatility. More specifically, as currency markets signal their trust and confidence in the Canadian dollar do to Canada's underlying economic market fundamentals, energy resources, and political stability; the relative valuation of the Canadian dollar (as compared to other currencies) increases. Such increases make foreign imports more competitive in the Canadian and Ontario marketplace, resulting in the substitution of foreign product for domestic product.

SECONDARY CONDITIONS -- SUBSTANTIAL EXCESS SUPPLY

The substitution of foreign product for domestic product results in the market displacement of domestic vegetables. This displacement creates local pocket of excess supply which in turn creates downward pricing pressures. While these pressures may serve to make Ontario vegetables more competitive, in actuality competitive pressures force the fall of all vegetable prices to the lowest common level. The problem is that Ontario producers struggle to compete at that pricing point, while foreign competitors have the benefit of weaker currency valuations which assist in cushioning price depression.

CLASSIFICATION OF ISSUE

North American

SITUATION SUMMARY

- High levels of international and inter-provincial competition.

- International competitors benefit from comparative advantages in terms of production costs (land, input costs, and labour), and more favorable regulatory environments making them more price competitive.
- The strengthening value of the Canadian dollar has made imports cheaper and Canadian exports more expensive.
- Limited distribution channels due to grocery retailer consolidation.
- Grocery retailer consolidation has also resulted in the consolidation of orders thereby making typical orders larger by volume thereby creating additional pressures on product grading and sorting, as well as logistical challenges.
- Conventional vegetable production is facing higher levels of competition at the top end of the consumer scale from organic producers and greenhouse growers.
- "Buy Ontario" programs from a marketing standpoint are stale and need to be modernized in order to increase effectiveness in influencing consumer purchasing habits.
- Buy local campaigns are having a positive influence but such campaigns are only effective with consumers if there is price parity between local and distant produce.
- There is the possibility that rising energy costs, particularly for transportation, will have a beneficial impact for Ontario produce growers by making foreign produce more expensive to get to Ontario markets.

VEGETABLE GROWER PROFILE

Albert Streef is a major vegetable grower in the Kitchener-Waterloo area. Albert farms 3,000 acres, with 1,100 acres dedicated to potatoes, 550 to snap beans, and the remainder dedicated to corn, soybeans and some wheat. This is a family business that first began in the 1970s.

The Streef family has expanded into wholesaling of produce in addition to their farm activities; they have expanded their initial direct wholesaling business by securing a slot in the Ontario Food Terminal. The farming operation now accounts for approximately 25 percent of the total operation with the bulk of the business focused on produce sourcing, distribution, and wholesale sales. The Streef family business now acts as a broker for other vegetable producers and sources products internationally for his downstream customers when the need arises and the opportunities present themselves.

CONCERNS

Albert's concerns centre around three issues:

- the commercial power of grocery retailers;

- the increasing cost of production input (including land values); and
- the increase in foreign competition, and the competitive advantage of foreign producers due to international conditions.

Albert is a pragmatist. He has a keen eye, and is quick to size up any business situation. He is a strong business tactician and is able to discern opportunities and obstacles, and how to successfully navigate a course that achieves success.

Albert recognizes the power of grocery retailers. Retailers exercise a great deal of power in the produce value-chain. Retailers determine the amount of retail space that is allotted to fresh produce, and what the mix of product will be on their shelves.

Albert observes that, "there may only be one kind of bulk potato in bushel baskets in the produce section, or one kind of carrot, so the selection is the choice between what is available or nothing." Meanwhile, over on other shelves, “there are seven kinds of dish detergent and five brands of toothpaste on sale”. This suggests that the major buyers do not really expect the average consumer to do more than superficially assess produce quality and prices.

"Retailers are the gatekeepers to the consumer", Albert notes. If you want to get in front of the consumer you need to meet the retailer's needs. Retailers want produce that is "high in quality and appearance, long shelf life, at the cheapest price". Add to this consistency among produce shipments, regular predictable supply including in the off-season.

Albert worries about where the cost to produce vegetables is heading. "Costs are constantly increasing and there does not seem to be an end in sight", Albert stated. Input costs and land prices have increased tremendously since the 1970s, while commodity prices have improved very slowly. “There isn’t a crop out there that’s legal, that’s a return on your investments.” Albert notes. He adds, “Society isn’t really totally 100 percent ready to pay for food production.”

Albert recognizes the advantages favorable currency values, cheaper production costs, and sophisticated and integrated international transportation systems give to foreign producers. This is the business reality and at least in the short-term cannot be changed, Albert observes. Canadian agribusiness simply needs to adjust.

When asked his opinion on export opportunities for Canadian vegetable producers, Albert noted that "land and input costs in Canada take away export opportunities." "There is not much opportunity for Ontario given that the cost of living is so high here." "There is a market for Ontario's vegetable crops abroad – particularly in India and China – but their consumers just don’t have the income to pay for Canadian production because our production costs are so high." Albert also adds that, "even root vegetables are perishable", referring to the reality that shipping to distant markets creates other complicating logistical and storage factors that are avoided if one concentrates instead on local markets.

STRATEGIES

Albert's business strategy is based on the critical observation that, "Lots of farmers are good at production, but know nothing about the marketplace." Albert's strategy is based on understanding the marketplace and matching good production practices with savvy marketing, sales and distribution strategies. More specifically Albert follows a strategy that:

- Concentrates on meeting grocery retailers' needs, particularly in the areas of quality, product esthetics, batch consistency, volume, reliability of delivery, seasonal supply and price;
- Increases his home production footprint by leveraging other producers' production and asset base. This is achieved by providing brokerage services for those producers. It also allows for scalability in terms of meeting customer demands as this fluctuates either upwards or downwards over time;
- Concentrates on local markets (one day trucking distance). Minimizing the distance to customers allows for timely management of logistical issues and an emphasis on customer service and relationship building.
- Acts as a supply chain-integrator between producers and buyers;
- Centers his business operations of solving his customers produce sourcing and supply needs with a "single-window" solutions approach.

In addition to these sales and marketing strategies, Albert is a producer that adopts operational strategies that control input costs and maximize production yields. This is in addition to sound financial management, particularly debt control.

Albert's own farming activities now consume about 25% of his time, the rest is involved in wholesale operations. He had initially branched out in the Ontario Foodland Terminal but has been expanding beyond them, particularly since the Foodland Terminal broadened its own activities too much.

Albert offered some advice for those producers and growers that wanted to emulate this business strategy.

First, start slow and easy, develop a good marketing plan and stick to it while servicing both other producers and buyers simultaneously. "The buyers need enough supply to know you are there, but they want to minimize exposure to [supplier] risk." This works for and against producers since it means there are greater opportunities to start new relationships with buyers but those relationships will be capped, in terms of contract volumes, until a proven track record is demonstrated over time.

Risk also grows with distance, but one should be flexible enough to ship elsewhere if the conditions are right. By way of example, Albert notes that Ontario producers have been competing with California for decades in the Ontario market, but when the California asparagus crop failed, Albert was quick to capitalize on the opportunity to ship Ontario asparagus to California.

Grocery retailers need produce supplied all year round. Consider how your operation can meet their needs most effectively. You may want to consider a strategic partnership with a foreign seller or producer group.

Develop a solid and realistic business plan and always maintain a strong commitment to your product.

Finally, when one occupies the middle ground in a value chain one must be cognizant both parties' interests must be understood and served. "Their problems are your problems." Your job is to solve their problems while keeping everyone satisfied with the relationship. That is your key to adding value and being valued, and that in turn translates into profitability.

CORE RECOMMENDATIONS & ADVICE

- Provide an essential service to your buyers to secure their loyalty, while providing an essential service to your suppliers.
- All your customers are at risk; make sure you minimize it for them.
- Know your buyers needs exactly.
- If you can market your own product, you can market someone else’s too.
- Marketing needs planning.
- Stay diverse and flexible enough to take advantage of opportunities.

CASE STUDY 8: FRUITS & VEGETABLES: GREENHOUSE VEGETABLES

PRIMARY CONDITION -- VOLATILE CURRENCY MARKET

The Ontario Greenhouse sector (tomatoes, peppers, and seedless cucumbers) operates in a North American (Canada, US, & Mexico) market environment. There is a high degree of product competition in the American and Canadian marketplace for produce sourced from all three production regions. Currency exchange rate differentials have a high impact of the competitiveness of product in each of these markets.

SECONDARY CONDITIONS -- HIGH PUBLIC DEBT

Greenhouse operations are very capital intensive and as a general rule carry significant debt burdens. As such, the Greenhouse industry is very sensitive to interest rate fluctuations. Currently, interest rates are at historical lows. However, interest rates are greatly affected by the levels of government borrowings, particularly the borrowings of national governments. Interest rates are even more sensitive to the potential for, or actual, sovereign debt default. This creates an interesting set of circumstances.

The Canadian national debt while high is nevertheless manageable given underlying economic conditions. Nevertheless, national interest rates do exert an impact on each other. For Canada the interest rate of greatest significance is that of the US Federal Reserve. There is a very real concern that the US might be placed in a 'legal' sovereign debt default position in the eventuality that no resolution is achieved in the US regarding the raising statutory national debt ceilings. While this is a political crisis, the current brinksmanship between the Democrats and the Republicans may create a situation whereby the US government cannot raise additional debt post August 2, 2011. If this transpires, interest rates will dramatically and rapidly increase in the US. Canadian interest rates may be pulled upwards as well given Canadian economic dependence on the United States. While such an event will likely be short lived, the investor risk premium demanded to hold US Treasury debt may have a long and lagging effect.

The potential exists that Canadian greenhouse growers may actually enjoy an interest rate advantage relative to US greenhouse operators for a significant period of time. This is a matter that should be monitored closely.

SECONDARY CONDITIONS -- VOLATILE COMMODITY MARKET

Greenhouse production is not subject to commodity speculation in the general meaning of that term. However, greenhouse inputs such as energy (natural gas for the production of electricity) are subject to such speculation. National currencies have also been subject to "commodity-like" speculation. For example, there are hedge funds specifically based on the commodity trading of currencies. These factors combined assert a spillover affect onto the operations of Greenhouse growers.

CLASSIFICATION OF ISSUE

North American

SITUATION SUMMARY

- Intense competition amongst greenhouse growers in Canada, the US and Mexico, within the American and Canadian marketplace.
- The strong valuation of the Canadian dollar makes US and Mexican products more competitive in Ontario markets, and Ontario exports to the US less competitive.
- Potential risk of US protectionism as business conditions weaken in the US, coupled with the increased exercise of US non-tariff trade barriers (i.e. food safety, and bio-security inspections).
- Ontario energy policy creates a long-term uncompetitive environment for greenhouse growers.
- High levels of competition with field vegetable growers and organic growers.

GREEN HOUSE GROWER PROFILE

Nick Mastronardi of Double Diamond Acres Ltd. is a greenhouse grower with 50 acres under glass near Leamington in South Western Ontario. Nick operates this family business in conjunction with his two sons. Together they hydroponically grow tomatoes, peppers and seedless cucumbers. Double Diamond Acres Ltd was founded in 1977. Approximately half of their greenhouses are located near Sarnia where they use waste heat from an industrial plant to assist in their operations. Double Diamond also runs its own processing and shipment centre for distribution throughout Southern Ontario and into Michigan. The family business also operates a distribution centre in Michigan.

CONCERNS

Nick is a seasoned business man who has witnessed first-hand tremendous change in the Ontario greenhouse sector over the years ranging of American trade actions to the appreciation of the Canadian dollar by 60 percent. Nick is concerned about four issues when it comes to the current business environment, specifically:

- the competition presented by the US, Mexican greenhouse growers, as well as traditional field vegetable growers (tomato, peppers, cucumbers);
- downward price pressures exerted by retail grocery chains, as well as end consumers due to recessionary influences;
- commodity production input cost controls; and
- domestic market access to consumers through retail grocery chains.

Unlike other commodity products that can be stored for a period of time, greenhouses produce highly perishable products. Production must be moved to market shortly after harvest and sold, or else the value of the product is lost. This fact puts significant pricing pressure on greenhouse operators and demands a constant effort to secure existing and new markets, while at a minimum maintaining, and ideally expanding, market position with retail grocers both domestically and internationally.

This underlying business reality creates constant pressure amongst greenhouse operates to jockey for market share, and retain retail exposure and access. In turn these two needs, compels greenhouse growers to continuously reduce operating costs while engaging in a constant process of building new and re-enforcing established retail relationships. These types of relationships serve greenhouse growers well in gaining access to grocery purchasing agents in order to pitch-for-business, but these relationships do not overcome the pricing imperative faced by retailers to secure the lowest possible price. Greenhouse growers are constantly pressured to price match. This pressure is the same in the Canadian and American markets.

Energy costs have long been a burden to this industry, “We were in a recession long before the recession came along, energy costs were killing us", Nick notes. Recent policies in Ontario intended to finance the rebuilding of the Provinces power supply are having a hard impact on all consumers, and heavy users like greenhouse operations are being hard hit.

STRATEGIES

Nick outlines Double Diamond Acres Ltd.'s strategy as follow:

- rigorous control of all costs, and constant application of new techniques, technology and production methods to reduce existing costs;
- passionate pursuit of productivity and yield gains;
- proactive debt management and cash flow management;
- during profitable years, boost retained earnings that can be drawn down during lean years;

- regularly invest in product development and innovation in order to exploit new competitive niches;
- maintaining excellent relationships with customers; not taking them for granted and fixing any problems early and quickly;
- Using the Family Inc. business model; and
- Incentivizing employees so that they have the same business motivations as family members.

While two generations of the Mastronardi family operate the existing business it is being managed for the future benefit of the grandchildren. Nick and his sons see themselves as caretakers and stewards of the Double Diamonds Acres Ltd.   For the Mastronardi's it is about a passion for farming and the quality of life it affords.

As stated previously, cost control is an obsession at Double Diamonds Acres Ltd. Greenhouse growers are price takers when it comes to selling their commodities. They have only three ways to increase profitability: 1) greater production and economies-of-scale (assuming available markets); 2) new product innovation and marketing, which provide temporary first mover advantage and market access; and 3) input cost reductions. Of the three categories cost reductions provides for the greatest level of certainty, predictability and managerial control.

For Nick, debt management is not an immediate concern. Years of prudent management in this regard have placed the business in a solid position. However, Nick acknowledges that not all greenhouse growers are as fortunate. He too agrees with cultivating solid banker relationships, and locking in low interest rates when possible.

Unlike other produce production, greenhouses while producing a commodity product, nevertheless enjoy a degree of brand recognition and branding opportunity. In this regard, Nick stresses the importance of quality control. A branded product cannot hide from the end consumer like some pooled or aggregated commodities can. Never disappoint your customer Nick stresses.

Nick has a final thought about the future of greenhouse production and marketing. Greenhouse produce is in direct competition with traditional field grown vegetables and more recently with organic vegetable production. Often, but not always, greenhouse produce is competitively priced with field grown vegetables. However, greenhouse produce are discounted relative to organic produce. This makes little business sense. Greenhouse produce is typically grown hydroponically, without the use of pesticides (natural predators are used instead) and subject to rigid feeding controls that maximize produce nutrient profile. Greenhouse produce does not only meet organic produce characteristics, it surpasses it. Nick believes new marketing opportunities exist by promoting the "superior to organic" profile of greenhouse produce.

CORE RECOMMENDATIONS & ADVICE

- Drive out costs, and drive in productivity.
- Build on traditional strengths like Family Inc.
- Marry solid debt management with financial reserves and cash flow management.
- Exceed your customers' expectations while addressing their core needs.
- Invest in innovation and new product development.
- Tie employee compensation to business goals, objectives and long-term interests.

CASE STUDY 9: GRAPE & WINE: GRAPE GROWER AND WINERY

PRIMARY CONDITION -- SUBSTANTIAL EXCESS SUPPLY

The vast majority of grape production in Ontario is for the production of wine. There is only a minimal fresh table grape industry. Consequently, it is impractical to discuss the Ontario grape growing industry without migrating into a discussion of the Ontario wine industry.

There is a global surplus of wine. Ontario grape growers and vintners are in head-to-head competition with both Old World and New World producers. These well established regions are able to produce greater volumes of good quality wines at a cheaper cost than the Ontario industry.

SECONDARY CONDITIONS -- DIMINISHING FISCAL STIMULUS

The Ontario wine and grape industry faces intense international competition from high volume, low cost, wine regions. While the Ontario wine industry produces a great many world class and exceptional wines, the majority of grape production in Ontario is sold to large multinational wine conglomerates that utilize Ontario grapes in the production of economical (low-end, low margin, but high volume) Cellared-in-Canada wines. These wines are typically a blend of Ontario and foreign wine. The blending is required by legislation, and there are minimal domestic content requirements. This minimal content requirement is currently set at a higher percentage than previously, but scheduled to decrease in future years.

Ontario is a small wine producing region by Global standards. It is also one of the only regions where domestic (Ontario) wine sales are not dominated by the domestic industry. If those industry producers that are currently producing grapes for the Cellared-in-Canada market do not take steps to transform themselves into suppliers of grapes for the production of high quality wineries, then there is a substantial risk that when the minimum content requirement is reduced, and there is concurrent drop in demand for grapes, those producers that have not transformed their business model will be with a smaller market or a very limited market.

As fiscal stimulus recedes, and the public tolerance to support failing industry segments reduces, governments at all levels will not be in the position nor of the inclination to further subsidize the industry with public monies. Likewise, the potential for increasing minimum content levels also seems unlikely, given the recent accord that was struck amongst grape growers, the large and small wineries, and the Provincial government.

SECONDARY CONDITIONS -- VOLATILE CURRENCY MARKET

The strengthening of the Canadian dollar makes all imports, including foreign wines, cheaper. This exacerbates an already difficult competitive position for the Ontario grape and wine industry.

CLASSIFICATION OF ISSUE

Global

SITUATION SUMMARY

- Ontario is a high cost producer of wine, and faces intense competition in its domestic market from good quality, low cost, foreign wine regions.
- The strong valuation of the Canadian dollar further exacerbates the foregoing condition.
- The Ontario wine industry produces some exceptional world class wines, however, the bulk of Ontario's grape production is used in the manufacture of economical, high volume, low margin, blended wines (Cellared-in-Canada).
- The current situation is supported by government regulations, but that regulatory framework is under constant tension by industry stakeholders, and is subject to sudden change.
- The sale of alcohol in Ontario is conducted under the monopoly authority of the Liquor Control Board of Ontario (LCBO). This crown corporation's business practices severely restrict the ability of wineries to market and sell their products which in turn restricts profitability.
- In addition to the LCBO, the remaining liquor regulatory environment of severely handicaps the ability of wineries to successfully market and sell their products.
- With the exception of ice wine, there are limited export opportunities for the Ontario wine industry.
- The wine industry is also under intense competition with the beer and spirits industries.

GRAPE PRODUCER AND VINTNER PROFILES

John and Barbara Neufeld are the proprietors of Palatine Hills Estate Winery Ltd. which is situated on over 100 acres on Lakeshore Road in the town of Niagara-on-the-Lake.

John and Barbara have been growing premium grapes for other local wineries since the early 1970s. In 1998 they were faced with a surplus of Icewine juice and decided to try their hand at winemaking. It was an instant success. They turned their very first Icewine for Palatine Hills

Estate into a gold medal at the 2003 Ontario Wine Awards. The wine was also named Ontario Wine of the Year. Since that time, John and Barbara have won over 30 awards for their wine at various wine competitions. Since the Ontario Wine of the Year award in 2003 Palatine Hills has grown its portfolio to include many other premium wines at approachable prices.

The winery has expanded from an initial production ranging from 5-7,000 cases to a present day total of about 150,000 cases which they now market extensively.

CONCERNS

Palatine Hills' main concerns are as follows:

- The impact from intense foreign competition, from low cost wine producing regions;
- The inequity of the current regulatory system that is overly complex, and discriminates against some producers while favoring others;
- The restrictive distribution and retailing systems that is monopolized by the LCBO; and
- The LCBO's standing as the world's largest single wine purchaser, which has the negative result of the LCBO favouring the carriage and placement of foreign wines it acquires within its retail outlets resulting in the displacement of Ontario wines.

John readily acknowledges the sector challenges that are created by the Primary and Secondary issues that are outlined above; however, to this he adds an interesting and subtle observation. John notes that Ontario consumers still tend to belittle the Provinces’ own wines out of habit. To be fair, this is not unjustified when one considers the "Baby Duck" era of Ontario wines. That said, there have been marked improvements since that time in terms of quality, and the stigma of the past is no longer justified though that stigma does tend to linger.

More significantly, John observes that attitudes initially formed during the Province's prohibition era have influenced Ontario's attitudes towards wine. Wine drinking as a natural part of the culture never developed widely in Ontario, and wine still sometimes is seen by too many consumers as a special practice as oppose to a daily routine. It has been Ontario's immigrant population that has mainly supported wine consumption as a routine practice, but these drinkers tend to prefer wine from their "home" countries rather than Ontario.

STRATEGIES

Palatine Hills' strategy for dealing with the Global negative business conditions within the context of the Ontario environment are mixed and varied. Specifically, Palatine Hills' pursues strategies that:

- approach viniculture as a primary business enterprise that must be profitable;
- aggressively control costs and expenditures while maximizing productivity and yields;
- judiciously manage debt and cash flow management;
- contract out operations, such as bottling, that can be more effectively supplied by external suppliers;
- ensure that the winery is competitively represented in every price and quality category;
- pursue all viable marketing, sales and service opportunities such as:
    - estate wine making;
    - bulk grape sales to other wineries;
    - third party winemaking for private label clients or virtual wineries;
    - bulk storage of third grape juice and wine;
    - retailing to the restaurant sector;
    - direct to consumer sales through the LCBO, and bulk direct orders;
    - out-of-province sales;
    - "lottery" direct consumer marketing ("buy a case of wine and you could win a prize");
    - foreign market sales; and
- forming strategic alliances with non-wine businesses whereby an attribute such as an existing sales force can be utilized to enhance wine sales.

For John the strategy is straightforward, find as many ways as possible to put his grapes into wine production (Palatine Hills' or a competitor-customer), and then find as many ways possible to put his own wine into his, or a competitor-customers', wine bottles, and then market creatively and aggressively. It comes down to volumes, through-put and venue exposure and distribution channels.

John is an out-of-the-box creative marketer. Wine is not only about the quality of what's in the bottle but also about marketing. For instance, Palatine Hills has teamed up with a food distributor that services institutions and restaurants to help market their wines to the 600 licensed establishments served by their sales people. The sales team might not know wine well, but that is something that John can address.

By providing services to competitors (private label, virtual wineries and other traditional wineries) Palatine Hills' is able to effectively expand their "own listings" in the LCBO and the restaurant industry. It is a creative way to manage business under the Ontario regulatory environment. Moreover, increased sales translate into increased economies-of-scale and reduced unit capital expenditures.

Palatine is a full integrator of upstream and downstream business activities. But through it all it all comes down to producing a quality product, and having a passion for the business.

CORE RECOMMENDATIONS & ADVICE

- Concentrate on the product, and produce the best quality you can.
- Be innovative in marketing, by adding value to partners in other industries and in turn leveraging their strengths.
- Stay flexible and nimble.
- Control costs, keep yields and product quality high.
- Control your debt, and maintain good cash flow management.
- Never say no to cheap or free money. Use government programs, but don't depend on them for your survival.
- Create a good product story.

CASE STUDY 10: HORTICULTURAL --PLANTS & ORNAMENTALS

PRIMARY CONDITION -- HIGH LEVELS OF PUBLIC DEBT

The Plants and Ornamentals sector is highly capital intensive by nature. Growers need to invest significant dollars for the acquisition of land, greenhouse construction and in-ground or hydroponic irrigation systems.

From an operational perspective, growers must heavily invest in developing, growing and stockpiling seasonal plant inventories that typically have a very short window in which the final produce can be sold.

From a cash flow standpoint the pattern is high levels of up-front outlay followed by tightly defined periods of high sales generation, which may extend over a period of several months depending on the trade credits offer by the grower to his customers.

The result is a heavy dependence and utilization of large operating lines of credit.

High levels of public debt are indicative of high levels of public spending. This spending is usually financed through the marketing of government treasury bills and other similar securities in the capital markets. More recently, though not in Canada, governments have resorted to a process of quantitative easing.

In either case, the net effect, all else being equal, is an increase in interest rates. Operating lines of credits charge interest on outstanding balances on a prime plus some fixed percentage point basis. Under the above conditions, plant and horticultural growers will have to contend with additional interest expenses. Depending on the level of debt, this could be a significant additional expenditure.

SECONDARY CONDITION -- WEAK DOMESTIC DEMAND

Much of the Plant and Ornamental industry while once North American in sales focus has, in recent years, been forced to retrench into the domestic market. This is largely due to phyto-sanitary restrictions imposed by the US that have curtailed Canadian market access, and negative competitive costing pressures resulting from the strengthening of the Canadian dollar.

This has created significant competitive pressures within the Canadian and Ontario market, just at a time when consumer confidence is weakening and discretionary spending is being reduced. While voluntary discretionary spending is being reduced, parallel increases in consumer expenditures on staples such as food and energy (transportation, heating and electricity) are increasing. This is largely driven by external supply shocks or geo-political instability that is boosting commodity prices. This further reduces the consumer discretionary spending budgets.

SECONDARY CONDITION -- WEAK CONSUMPTION & INVESTMENT

Canadian households are struggling under record levels of consumer debt. Consumer confidence is also low. Many consumers fear job loss. Additionally, consumers that are already over-extended and over-leveraged are fearful of the potential for higher interest rates in the near future. This sparks parallel fears about debt servicing costs and ability. These factors are weakening consumer consumption patterns as they attempt to re-organize their financial circumstances. The retraction of consumption is damaging to the industry.

CLASSIFICATION OF ISSUE

North American

SITUATION SUMMARY

- The Plant and Ornamental sector is a highly competitive sector operating on tight and declining margins.
- International competitive forces have forced the Plant and Ornamental industry to retrench into the domestic market, thereby intensifying competition, which resulted in the consolidation and rationalization of the industry.
- There has been a significant consolidation at the wholesale and retail levels. This has further intensified competition and has restricted distribution and sales channels.
- The nature of the industry is that it is highly dynamic, with new or variations on old product lines being constantly introduced.
- The Plant and Ornamental sector is highly capital intensive, however, given the nature of the varied growing needs of products and the extensive product variety the industry suffers from the inability to commoditize production processes industry.
- The industry has a high degree of seasonality and tight windows in which to complete sales transactions.
- The Canadian culture is not disposed to the regular purchase of plants and ornamentals, unlike the Europeans; as a result market opportunities gravitate around holidays.

ORNAMENTAL GROWER PROFILE

Robert and Francis Bierhuizen are the owners of Sunrise Greenhouses Ltd. They are acknowledged leaders in the Plant and Ornamental industry. Robert founded the company in

1982 after arriving here from the Netherlands in 1977. Sunrise Greenhouses Ltd., is a family operation, and has over a 30 year period expanded from 50,000 square feet under glass to 200,000 square feet.

Sunrise Greenhouses Ltd., is located in Vineland Ontario. As a company they are committed to bringing innovative potted specialty crops that are uniform in quality to the marketplace at reasonable prices. The products are designed to keep the attention of the consumer. Their product inventory includes:

- Lily of the Nile;
- Aphelandra
- Calluna& Erica
- Campanula
- Chlorophytum
- Chrysanthemum
- Curcuma
- Goldcrest
- Hakuro Nishiki
- Hydrangea
- Jasmine
- Lavender
- Lilacs
- Maracas
- Mikado
- Nertera
- Ornithogalum
- Pussy Willow

Sunrise Greenhouses Ltd., does not sell directly to consumers. Rather, the company sells through wholesalers which include: Bayview Flowers; Flora Pack; Foliera; Garden City; Great Lakes Floral; Gregory Floral; UFD; Northland Floral; Ontario Flower Growers, Co-Operative Ltd.; Intergrow; and Westbrook Floral Ltd.

CONCERNS

Sunrise Greenhouses Ltd., is principally concerned about the following business conditions:

- consolidation in the retail sector which has restricted distribution channels and marketing opportunities and has created increased pricing pressures;
- high input costs, including labour, energy and transportation;
- given current production practices and technology applications, greenhouse productivity and yields have reached maximum levels; and
- Weak demand, except around specific holidays, for plants and ornamentals among traditional Canadian ethnic communities.

STRATEGIES

Robert and Francis are highly sophisticated growers that have their finger on the pulse of their industry. They are leaders in identifying emerging trends and opportunities in the marketplace and have the technical know-how to capitalize on them early and decisively.

First and foremost, given the tight margins in the industry, Robert and Francis are constantly focused on reducing operating costs. They have adopted a company-wide strategy of driving out costs and promoting efficiency. Sunrise Greenhouses Ltd, has been so successful in the pursuit of the objective that they have literally reached the maximum plant and productivity yields.

Robert and Francis are now seriously considering employing the use of advanced robotics in order to reduce labour costs, optimize efficiency and thereby enhance competitiveness.

Controlling debt leveraging and proactive cash flow management is second nature to Robert and Francis. For them, these are the basics; the necessary foundation of any successful business. Their real competitive advantage lies in their market intelligence systems and systematic corporate planning.

The plant and ornamental industry has long product development lead times and high costs associated with building plant inventories. Given these two factors it is critical that new product development decisions come to fruition and are ultimately profitable. The industry is also highly subject to the whims of fashion. For instance, "colours that are in vogue" are often determined by the ad hoc taste preferences of celebrities or famous and influential European fashion houses. Experience has shown that these trends are closely followed by consumers as well as the interior design and decor industries. Robert and Francis are close observers of these emerging trends and they work diligently to bring to market plant lines that are consistent and complementary to these fashion trends. This not only builds competitive advantage but it also provides them with first mover advantage in the marketplace.

Sunrise Greenhouses Ltd., also invests heavily in consumer market research to determine the customers' clienteles' preferences. This is a very powerful tool. Being in a position to advise your customers about what will sell, based on solid research, not only builds superior strategic alliances but also customer dependence. Sunrise Greenhouses makes the same kind of investment in plant research.

Robert and Francis recognize the value in making long-term strategic decisions early. For instance, Sunrise Greenhouses acquired early-on the exclusive rights to grow and sale specific plant varieties. This is an investment that is paying dividends today given that it has secured them a guaranteed customer base (within their licensed catchment area) that wants those plant varieties.

That said, not everything is predictable. Robert and Francis also make contingency plans to deal with unexpected failures. As Robert points out, "it is always useful to have a couple of plants in your back pocket."

CORE RECOMMENDATIONS & ADVICE

- Use innovation and unique expertise to support your buyers and provide an indispensible service to them, thus cementing their loyalty.
- Know your customer's needs better than the customer does.
- Be flexible with diverse production lines, to create and utilize new opportunities
- Be ready to make immediate use of new technologies to lower costs.

CASE STUDY 11: ALTERNATIVE & SPECIALIZED: DAIRY GOATS

PRIMARY CONDITION -- WEAK CONSUMPTION & INVESTMENT

Canadian households are struggling under record levels of consumer debt. Consumer confidence is also low. Many consumers fear job loss. Additionally, consumers that are already over-extended and over-leveraged are fearful of the potential for higher interest rates in the near future. This sparks parallel fears about debt servicing costs and ability. These factors are weakening consumer consumption patterns as they attempt to re-organize their financial circumstances. The retraction of consumption is potentially harmful for the Dairy Goat industry given the higher price point for goat milk relative to conventional cow milk. However, this risk needs to be qualified.

Practically speaking the goat milk industry is still in its infancy in Ontario. While it is a growing market, its consumer base is small. Small markets, in business terms, tend to amplify external shock factors. There is uncertainty whether this amplification will result in a softening or firming of consumer product loyalty without greater specific industry research which is beyond the scope of this Report.

SECONDARY CONDITION -- WEAK DOMESTIC DEMAND

Ontario's Dairy Goat industry is largely confined to the Provincial market, though it is subject to the pressures of international competition from producers in the European Union. The industry is also in the pre-take-off stage of growth and development, meaning that the industry, while economically viable, is nevertheless in a stage of growth whereby it is attempting to broaden and deepen its consumer penetration levels. In order to achieve this, it requires general economic conditions whereby consumers have the desire and the discretionary income to try new products and product lines. When consumers spend in quantity that collective action signals to producers and processors greater market expansion opportunities and that additional investment is needed and will likely generate returns. However, weak domestic demand slows this process or quite possibly suppresses it all together.

While voluntary discretionary spending is being reduced, consumer expenditures on staples such as food and energy (transportation, heating and electricity) are increasing. This is largely driven by external supply shocks or geo-political instability that is boosting commodity prices. This further reduces the consumer discretionary spending budgets, and thereby has a negative effect on the dairy goat sector.

SECONDARY CONDITIONS -- SUBSTANTIAL EXCESS SUPPLY

In contrast to the Ontario Dairy Goat industry, that same industry in the European Union is mature, well developed, and benefits from advanced production levels and processing capacity. In short, the EU industry benefits from economies-of-scale and this makes them formidable Global competitors. They have excess supply of product available.

The EU agricultural sector is also under significant market pressures. To relieve this pressure many firms naturally look to export opportunities in order to penetrate new markets and gain market share. The Ontario Dairy Goat industry faces the risk that EU goat milk and cheese producers and manufacturers will target the Ontario market in such a drive. Conversely, the relative infancy of the Ontario goat milk and cheese market might also discourage the EU industry from entering the Ontario market in a more systematic and coordinated manner given the relatively low volume of sales. But it is also possible that rather than there being a supply push of foreign milk and cheese into Ontario, that there will be a demand pull from Ontario grocery retailers for those European products in their drive to acquire cheaper sources of supply.

CLASSIFICATION OF ISSUE

North American

SITUATION SUMMARY

- The industry is in the pre-take-off stage of market development, there is room for substantial growth and expansion but that process may be tempered by the general Global and North American business conditions.
- The industry has low barriers to entry and low capitalization start-up and capitalization costs.
- There is a business risk that is associated with a very limited number of goat milk buyers and processors. This creates accounts receivable risks for producers and high dependency on processor (buyer) business strategies.
- The industry is subject to significant competition risk from large, more mature and efficient competitors from the European Union (Netherlands).

DAIRY GOAT PRODUCER PROFILE

Ian and Vicky Mayberry from Ingersoll, Ontario are a husband-and-wife team that entered the dairy goat industry a little over two years ago. They currently run a 400 head herd of dairy goats; by Ontario standards that constitutes a large operation. They are one of the 200 commercial producers of goat's milk in Ontario. Ian and Vicky breed their own replacement stock, and as one would expect, male goats are sold for the goat meat trade.

The Mayberry's converted an existing barn, rather than building a specialized dairy goat facility. This is a common practice in the industry. They are members of the Ontario Dairy Goat Co-operative and sell their milk through that organization. The co-op is made up of approximately 120 producers. Co-op members achieve milk production levels ranging between 600 to 1000 liters of milk per goat, per year. This accounts for approximately 17 million litres of goat milk per year, out of a total industry production of about 30 million litres annually. The milk is being processed into fluid milk, cheese, yogurt, ice cream and other products like curd and milk powder.

CONCERNS

The Mayberry's principal concerns centre on industry structure, milk marketing and goat milk product market development, more specifically:

- The industry is made up of approximately 200 commercial goat milk producers. However, there are only two significant milk processors (buyers). Producers are usually tied to either one, or the other processor, but generally not both.
    - This places producers in a high level of business dependency. Their farming operations depend on the milk processors maintaining successful business operations and developing and executing successful marketing strategies. This also places producers in a position of high accounts receivable concentration.
- The two processors currently supply virtually the entire Ontario retail grocery stores. While there is some foreign competition from the European Union this competition has not hindered the growth of the goat milk and cheese sector in Ontario. However, both producers and processors are at risk from retailers that may seek alternative sources of supply, particularly if those alternative suppliers take-on a predatory pricing strategy in order to aggressively acquire market share.
- There is no real independent price discovery mechanism for goat milk. Producers are price takers and because of limited buyers, are also forced sellers. This is not to imply that the current pricing situation is unfair. Rather, industry's viability is dependent on a solid understanding of mutual interests between producers and processors. Processors must be willing to pay a price that keeps producers in business and vice-versa. The current system has achieved that, but there is industry vulnerability in the eventuality that processor ownership changes and with it pricing strategies.

- While the goat milk and cheese market is experiencing approximately 8-10 percent growth per year, much of this is in cheese and not 'table' milk. Currently 90 percent of all milk is transformed into cheese. Industry thinking is that the conditions are right for a sustainable table milk market, but only if the cost of such milk can be brought to competitive levels with alternative products. However, such cost reductions cannot be achieved until a critical mass of consumers is acquired and milk production can in turn benefit from economies-of-scale.

STRATEGY

Ian and Vicky recognize that they are in a growth industry which presents significant business opportunities going forward. But, current industry challenges must be weathered until that time. In order to maximize the present and future operational potential of their dairy, Ian and Vicky have adopted the following strategies:

- an obsession with operational efficiency, input cost controls and productivity and milk yield maximization;
- family supplied on-farm work and management;
- tight debt control and cash flow management;
- investment in innovation through the purchase of superior genetic and breeding lines;
- strong commitment to building positive and personal relationships with industry players, suppliers and customers;
- care in the choice of downstream partners to maximize the potential for future business stability and growth.

Ian and Vicky take business planning serious. With very small margins on milk produced, there needs to be a constant eye on operational performance in comparison to projected performance. By "running-the-numbers" frequently, they are able to make timely operational adjustments in order to ensure optimum performance. This carries the added advantage of providing timely information to their lender, and in instilling a sense of confidence in the lender that the farm can, and is, performing to plan. Information management and flow is critical. If you do not measure you cannot assess, nor can you make good decisions.

Ian and Vicky stress that a successful dairy goat operation requires a great deal of commitment and "barn time". Goats require a great deal of proactive animal husbandry, which directly impacts productivity.

As a part of their plan, Ian and Vicky are experimenting with new techniques (lighting) to determine whether they can get more milk production in the off season. They plan for innovation by adding five cents a liter to their cost-of-production calculations to create a reinvestment fund geared towards herd improvement.

In like manner, they are looking to highly specialized animal stock from France in order to transform their stock over time to a higher yielding herd.

The careful relationship between producer and processor in the goat milk industry is a good model to examine, especially considering the less than perfect relationships that so often exist in other communities. The fragility of farmers in uncertain economic times is unquestioned by farmers themselves, but far too many components of the rest of the food chain take farmers' survival for granted.

Ian and Vicky have extremely good communication with their milk processing partner. They understand the processor's business objectives and marketing strategies. They are also impressed with the processors ability to gauge the future market conditions and the ability to shift quickly shift operations to adjust. By way of example, during economic good times, the processor concentrates on the production of goat cheese suitable for the restaurant trade. When economic times become tighter, and restaurant business is likely to be down, the processor shifts to goat cheese geared toward the "small-affordable-luxury" home market by manufacturing goat cheese in pre-garnished packages.

A last caveat was that banks are taking an interest in goat farming as a new growth industry. But a wise producer should not mistake their interest for support. Fiscal prudence remains critical.

CORE RECOMMENDATIONS & ADVICE

- Have a sound business plan and measure your operation against it.
- Earmark money for product improvement in your operational budget.
- Be passionate about farming and equally passionate about cost controls, productivity and yields.
- Choose your downstream partners carefully. Your farm success is tied to their success.
- Good relationships are key.

CASE STUDY 12: ALTERNATIVE & SPECIALIZED: ORGANIC AGRICULTURE INDUSTRY

PRIMARY CONDITION -- WEAK CONSUMPTION & INVESTMENT

Canadian households are struggling under record levels of consumer debt. Consumer confidence is also low. Many consumers fear job loss. Additionally, consumers that are already over-extended and over-leveraged are fearful of the potential for higher interest rates in the near future. This sparks parallel fears about debt servicing costs and ability. These factors are weakening consumer consumption patterns as they attempt to re-organize their financial circumstances. The retraction of consumption is potentially damaging to the organic agriculture industry.

SECONDARY CONDITION -- WEAK DOMESTIC DEMAND

The organic agricultural industry is well established in Ontario. The reasons for organic purchases are varied: It is a thriving sector. At the consumer retail level, organic products garner superior prices relative to conventional agricultural products.

The popularity of organic products has sparked a quasi-organic industry. These products are often called, "Natural" or some variant of that name, but they do not meet the certification requirements usually required to legally label a product "organic". It is highly questionable whether the general consumer understands the difference between certified organic product and others that trade on that name. Nevertheless, the objective is clear. Offer a product that suggests it carries the important characteristics of genuine organic products, but at a reduced cost and greater consumer affordability. The cost savings offered by these products are even more attractive during periods of weak domestic demand when households voluntarily reduce discretionary expenditures. Natural may be for many organic enough during periods of austerity. That said, one area of potential legitimate competition for the organic sector, both in terms of product and competitive pricing, may come from the vegetable greenhouse industry. The vegetable greenhouse industry carries with it all of the advantages of organic produce, while offering consumers a significantly reduced price for that produce, and at times a price that is competitive with conventional field grown vegetables. This is an issue that bears further watching.

While voluntary discretionary spending is being reduced, consumer expenditures on other necessities such as energy (transportation, heating and electricity) are increasing. This is largely driven by external supply shocks or geo-political instability that is boosting commodity prices. This further reduces the consumer discretionary spending budgets and thereby acts as an amplifying force that damages the organic agricultural industry's position.

SECONDARY CONDITIONS -- SUBSTANTIAL EXCESS SUPPLY

There was a period of time when certified organic product was synonymous with the idea that the product was grown in the developed world (North America, Europe and the like). While the rationale for this conclusion is questionable it nevertheless existed, and continues to exist. However, even the organic industry is being subject to globalization. Organic produce is now being actively produced for exports in such countries as Mexico and China. While Westerners may be skeptical of the rigors of "certification" in these countries, it is wise to expect that this will be addressed in short order. If this process continues, it is highly possible that organic production will be achieved in numerous low cost production jurisdictions, resulting in not only competitive pricing forces but market over supply as well.

CLASSIFICATION OF ISSUE

North American

SITUATION SUMMARY

- Organic agricultural products carry a price premium however, the level that the premium translates into added profitability greatly hinges on the management and production practices of the producer or grower.
- Organic farming will be subject to greater international competition from low cost jurisdictions thereby potentially eroding existing profitability and return levels.
- Organic agricultural products are subject to increased competition from "natural" products that are being produced by those wishing to "cash-in" on organic price premiums without incurring the expense.
- Organic agricultural production suffers from a lack of transparent price determination mechanisms.
- Organic agricultural products, while having entered the main-stream, are hampered from broader main-stream acceptance due to its premium pricing.
- Organic agricultural production is not an "on-again, off-again" activity. Producers must be committed to organic production as a new way of farming if they are to be successful.

ORGANIC GROWER & WHOLESALER PROFILE

Tom Manley is the owner of Homestead Organics Ltd. The Manley family has been farming in the Ottawa Valley since the 1860s, and the farm ‘reverted’ back to organic production in 1985 and received their certification in 1988 (Manley did point out that 19th Century farming certainly was organic, before modern fertilizers and pesticides came into use). The farm itself is now worked by his brother together with their father, while Tom has concentrated on the distribution side of the business. Homestead Organics now acts as a supplier, wholesaler and broker for other organic producers.

Homestead Organics employs 13 people and clears between $5 and $10 million in annual sales. In addition to brokering organic commodities Homestead Organics also supplies a specialized grain elevator, seed cleaner, feed mill and other supplies and related goods and services for the organic agricultural sector.

CONCERN

Tom is very bullish on the future of organic agriculture. But his optimism is tempered by a strong pragmatic streak that recognizes that organic farming is not for everyone. Tom's concerns centre around two issues:

- producer recognition that organic farming practices are fundamentally different than conventional farming, and that success in this line of production hinges on adopting new practices and ways of doing things; and
- the absence of an effective price discover mechanism for organic agricultural production.

STRATEGIES

Tom emphasizes that organic farming presents huge marketing opportunities for producers, and producers can make more than they are when using conventional practices. However, it is not an industry that offers quick returns or easy conversion. Conventional techniques and problem solving methods have to change.

The certification process is substantial, and these demand a solid commitment to organic farming practices. A producer or grower cannot decide to go organic one year and revert the next; not without losing the value of a significant investment of time, money and energy. Approximately 10 to 20 percent of organic farmers revert back to conventional farming annually.

Moreover, given the difficult certification standards and changed practices, producers tend to stay in the business. Organic farming itself is less productive, in terms of yields, than conventional practices (various studies estimate 75-80 % as effective), but input costs tend to be significantly lower: sometimes by as much as 50% given the absence of conventional pesticides and chemically derived fertilizers. Organic varieties of crops also sometimes tend to be more robust in difficult conditions than the optimized strains used in conventional practice. An organic vegetable farm might be less productive than a regular field vegetable farm in a good year and more productive in a bad one.

According to Manley, "Banks see this sector as a growth industry" and consumers “who go organic tend to stay that way.” Manley suggests that for many consumers, opting to buy organic products reflects both a lifestyle and a commitment on their part.

Notwithstanding the opportunities organic farming presents for producers, Manley stresses that farm business fundamentals are constants and must be adhered to irrespective of what is produced or grown.

CORE RECOMMENDATIONS & ADVICE

- Do not over extend your farm business operation, and manage your growth.
- Reinforcing success; give your best support to your most productive asset and always emphasis product quality.
- Driving-in efficiency and productivity and drive-out operating costs.
- Relationships are key in business. Do not burn bridges with industry partners, suppliers or customers.
- Do not hinge your business success on receiving government support programs; use them but do not rely on them,
- Keeping your side lines open and paying attention to new market opportunities.

NOTES: