

# **The Structure and Performance of the Farm Sector in an Era of Volatility and Uncertainty**

## **A Multi-Client Study Proposal**

*February 2009*

### **BACKGROUND AND STUDY OBJECTIVE**

There are few industries in North America quite as diverse as production agriculture. The nearly 2.5 million farms in the US and Canada include a majority that are simply part-time endeavors, producing little if any income, and perhaps using out-dated technology. At the other end of the spectrum are a relatively small number of operations that are enormous in size, responsible for a major share of food and fiber produced, and on the cutting edge of technology, finance and risk management. The ones in between especially represent the iconic class of “family farms”—full-time commercial businesses under continuous pressure to modernize and expand, or that eventually downsize, focus on finding off-farm income sources, or exit the industry entirely.

Across the spectrum of North American farms there is also broad diversity in the types of crops and livestock produced, the degree of specialization and the marketing and production strategies employed, many reflecting regional aspects including land resources, climate and proximity to key markets, among other factors. This heterogeneity is well known but often ignored or overlooked in statistics that attempt to document the financial health of the sector, and in public policies intended to support incomes or protect the environment.

But understanding the structure of agriculture has important implications for all entities that serve agriculture by providing productive inputs and services, as well as those that depend on a reliable supply of commodities to serve consumers across the United States and worldwide. And, only by carefully examining the characteristics of different types of farms is it possible to assess with any degree of accuracy the trends and emerging developments that will determine the future patterns of market growth as well as industry needs and opportunities.

By almost any measure, the agriculture sector today faces a unique and powerful set of risks and forces for change that will affect markets and structure for years to come. Official USDA statistics report that the farm sector generated record income in 2008, but expenses hit a new record, as well. And, a deepening US and worldwide recession, the political upheaval from the 2008 elections, and rapidly changing markets for agricultural products promise to affect the farm sector in important ways that differ along structural characteristics. Consider the following sources of uncertainty:

### **Policy Uncertainty**

The 2008 elections solidified the Democratic gains in both houses of Congress and brought a President into office that campaigned aggressively on a message of “change.” It is still too early to know how the political shift in the legislative and executive branches of government will affect farm policy, but issues already under discussion could have important consequences on different sizes and types of farms, including:

- Efforts to tighten farm program payment limits
- A renewed focus on competition policy, including greater scrutiny of mergers and acquisitions in the meatpacking industry and new efforts to restrict packer ownership of livestock
- Increased interest in environmental protection, with new laws and tighter regulation
- New approaches to renewable fuels policy, perhaps including a de-emphasis on traditional corn-based ethanol in favor of cellulosic feedstocks and other technologies such as wind, solar and biogas
- An uncertain outlook for trade policy, including a growing interest in trade protectionism such as “Buy American” provisions in the stimulus package and country-of-origin labeling in the farm bill

### **Financial Uncertainty**

The credit crises that has gripped world financial markets and led to the collapse of many of the most venerable banks and investment houses is affecting consumers and firms of many types as lending requirements are tightened and credit availability diminishes. The farm sector balance sheet remains strong, and agricultural credit markets are still functioning—reflecting the important role of the Farm Credit System as well as smaller community banks in financing agriculture—but the ability to minimize or avoid financial distress could be closely tied to various aspects of farm structure including:

- National and regional land price trends and outlook, and the characteristics of farms that rent versus own land
- The degree to which different types of farms receive income from price support programs, purchase insurance, and/or participate in federal conservation programs
- The amount of income received from off-farm sources, and the vulnerability of that income to the economic downturn

### **Market Uncertainty**

Export demand and ethanol production helped drive prices for many commodities to record levels by mid-2008, but the economic recession is severely undermining both of these important markets, pushing commodity prices at least temporarily back toward (but not yet near) long-term, historic levels. At the same time, food markets continue to change rapidly as consumer interest in aesthetic issues such as animal welfare, local foods, “fair trade” and organic production grows into the mainstream. It is still unclear whether these trends represent a fundamental shift in markets that will continue to grow, or if they will be diminished by a

weakening economy. This study will assess the impact and outlook for these changing market forces taking into account:

- Regional crop production patterns including yield growth and variability
- Crop and livestock diversity across regions and farm characteristics
- Niche market trends and farm characteristics, including certified organic, farmers markets, specialty crops and livestock, and others

In light of these and other sources of uncertainty facing the farm sector, this study will address the rates and magnitudes of change taking place in the evolution of US production agriculture. Moreover, the study will project the alternative structures to be established over the next decade. These analyses will serve as a foundation for policymakers (both state and local and federal) as well as rural planners and farm-related businesses. In addition, the study will describe and quantify (for each major segment) the impact of the evolving structures on each segment of the agri-food value chain. In the final analysis, the study will prescribe strategies for “aggressive” business development or protections as the changing structures dictate new economic opportunities and/or problems for the various sectoral participants.

## **STUDY METHODOLOGY**

The study will rely heavily on extensive desk research by the study team. Data analysis will be driven by the newly released USDA Census of Agriculture data for 2007, along with numerous other sources of public information that routinely report key statistics on production trends, financial characteristics, and market developments for the agriculture sector. Market forecasts and implications will be developed in the context of Informa’s own in-house long-term crop and livestock production estimates.

Supplementing this desk research, the study team will survey various thought-leaders and industry performers to gain “grassroots” insights about the topic and to give the study’s recommendations a “real footing.” This approach of blending desk research with personal surveys and discussions was employed very successfully by Informa Economics in 1998 and 2004 when we completed our “Farms of the Future” studies based on the 1997 and 2002 Censuses. It brings a fact-based foundation to the study’s participants will help to provide objective advice couched in reality.

## **WHO SHOULD PARTICIPATE IN THIS STUDY?**

This study is designed to bring value to every segment and participant in the agri-food value chain. The evolution of production agriculture’s future structure will impact farm suppliers, processors and food providers as well as ancillary/support industries (i.e., insurance, finance, farm management, transportation, manufacturing, engineering and so forth). If your firm or your agency develops strategy or policy about the agri-food value chain, this study will be an important—indeed required, source of input to your intelligence and analysis system. If one believes that the agri-food value chain stands on a production agriculture foundation, then this study focuses on the very “footings” of every related industry segment.

## **PRELIMINARY STUDY OUTLINE**

### **The Structure and Performance of the Farm Sector**

#### **I. Farm Structure: National, Regional and State Patterns**

1. Farm typology trends by sales class and industry segments
2. Trends in the numbers and size of farms
3. Farm productivity and diversity
  - a. Yield trends, variability
4. Land ownership and renting
5. Operator demographics
  - a. Age distribution of farmers
  - b. Number of operators per farm
  - c. Farmer occupation
6. Level of concentration by crop and livestock sector
7. Sales and revenues by agriculture sector
8. Government payments
  - a. Commodity program payments: characteristics of farms receiving support
  - b. Conservation programs: characteristics of farms participating
9. Machinery and equipment by sector
10. Farm expenses by sector

#### **II. Forces Driving Farm Structure, and Implications for Future Markets**

1. Production Agriculture
  - a. Economic and policy forces
  - b. Demographic features
  - c. Social forces and consumer demand
2. New Forces Affecting Production Agriculture
  - a. Technology adoption
  - b. Marketing arrangements, contracts
  - c. Organics, Natural Foods and other Consumer "Pulls"

#### **III. Business Practices Employed by Type of Farm**

1. Accounting Practices
2. Risk Management and Insurance
3. Marketing Practices
4. Farm Management Issues

#### **IV. Tomorrow's Production Agriculture Structure**

1. Which segments are expanding, contracting?
2. How is agriculture production distributed across different types and characteristics of farms?
3. 10-year outlook for farm structure

**V. Financial Outlook for the Sector, by Farm Typology and Other Characteristics**

1. Outlook for Farm Segments Based on:
  - a. Competitive Positions/Advantages
  - b. Profitability
  - c. Sustainability
2. Land Ownership Dynamics
  - a. Who Will Own Land, Who Will Farm?
  - b. What Drives Land Prices?
3. Debt Structure Impacts
4. Technology Adaptation Issues.

**VI. Farming’s Impacts on Rural America and the National Economy**

1. Community Impacts
2. Supplier Impacts (Including Finance)
3. Processor and Manufacturer Impacts
4. Consumer Impact
5. Distribution Impacts
6. Importer/Exporter Impacts

**VII. Summary: Highlighting Key Findings**

**VIII. Recommendations for Strategic Positioning by Value Chain Segment**

1. Inputs/Finance
2. Bulk Processing
3. Cooperatives
4. Food Manufacturing
5. Distribution
6. Consumer Contact Points
7. Exporters/Importers

**STUDY DELIVERABLES AND SCHEDULE**

**Deliverables**

The project will involve several specific products and services for the participating clients, including:

- **Pre-Study (“kick-off”) Conference.** A meeting of participating clients and Informa Economics’ study staff will be held in Washington, DC to review the detailed plans for the study and to *identify particular issues to receive special attention*. This seminar provided by Informa Economics will update clients on current developments, and enable specific client comments and interests relating to each to be noted.

- **Comprehensive Study Report and Presentation Materials.** Clients will receive the fully documented study report, *The Structure and Performance of the Farm Sector in an Era of Volatility and Uncertainty*. The report will include all relevant background statistics, analyses and evaluations, empirical projections and supporting detail developed during the study. Clients also will receive copies of all PowerPoint presentation materials used in reporting study results.
- **Post-Study Seminar.** Informa Economics staff will present the results of the study at a concluding daylong client seminar, with ample time for the group to participate in discussing the implications of the findings.
- **Final Report Presentation at Clients' Offices.** Informa Economics staff will travel to client offices to present the final report and conduct in-house seminars, as requested. These seminars are tailored to each client's individual needs and interests, and provide a unique opportunity to stimulate discussion and bring an outside viewpoint to within an organization. Informa Economics staff will present these findings at the clients' offices for only out-of-pocket expenses.

### **Preliminary Project Schedule**

*(Dates to be finalized once signup is complete)*

March 20, 2009 Pre-study conference and study begins

August 2009 Study completed – final report sent to clients

September 2009 Client seminar to review report

September-December 2009 Individual presentations at client offices

### **STUDY FEES**

The fees for participating in the study are \$18,500 for Informa Economics clients and \$22,000 for nonclients. The fees include attendance at the pre-study conference, the client group review seminar, and a presentation at client's offices by Informa Economics' staff (as requested). Cost of company representatives' travel to the conference and seminar, and expenses for Informa Economics' staff travel to companies' offices for the presentation are not included.

### **STUDY TEAM**

This project would be managed in the Washington, DC office of Informa Economics by Dr. Mark Jekanowski, Senior Vice President and Director of Policy Research. He will be supported by members of the entire Informa professional staff as necessary. Biographies of key team members are presented below, and additional Informa staff and consultants will be used on an as-needed basis.

**Mark D. Jekanowski, Senior Vice President, Economist.** Dr. Jekanowski head's Informa's Washington, D.C., office and is responsible for economic analyses and agricultural policy research. Since joining Informa in 2000, he has managed or independently conducted research projects for dozens of individual firms, commodity organizations, and government agencies. He has also participated in international projects based in Ukraine, Macedonia, and Egypt. Prior to joining Informa, Dr. Jekanowski was an agricultural economist in the Food Markets Branch of USDA's Economic Research Service where his research focused on the evolving structure of the food manufacturing and retailing industries as well as trends in consumer demand. Dr. Jekanowski was raised on a tobacco and vegetable farm in Massachusetts. He received his bachelors degree in resource economics from the University of Massachusetts at Amherst and his masters and doctorate degrees in agricultural economics from Purdue University.

**Bruce A. Scherr, Chairman of the Board and Chief Executive Officer.** Dr. Scherr has been with Informa Economics, Inc. (formerly Sparks Companies, Inc.) since 1987 in several executive capacities including President and CEO. In addition, he is an Advisor for Metalmark Capital LLC, a private equity fund. Formerly he was president of Sparks, Jacobs, Scherr, Inc. (SJS), a sister company to Sparks, and president of Agri-Commodities, Inc., an agriculture consulting firm based in Andover, Massachusetts, which was acquired by SJS. Prior to forming Agri-Commodities, Dr. Scherr was a divisional vice president at Data Resources, Inc., where he developed and utilized for the public and private sectors the first commercially available econometric model for US agriculture. Dr. Scherr received his bachelor's degree from Rutgers University and his master's and doctorate degrees from Purdue University, all in agricultural economics. Currently, he is a member of the Board of Trustees of the North American Electric Reliability Corporation (NERC) and serves as a member of the Global Strategy Institute Advisory Council of the Center for Strategic and International Studies. He served as a member of the Board of Directors for Desert STAR Inc., an electrical transmission Independent System Operator for the Desert Southwest from January 2000 through February 2002. In addition, Dr. Scherr has served as a member of The University of Tennessee's (UT) Institute of Agriculture Agricultural Development Board and UT's Committee for the Future. He was recently named a 2007 Distinguished Agriculture Alumni from Purdue University and he is a member of several honorary research and agricultural societies, a member of the National FFA Foundation Sponsors' Board 2000 through 2001 and a former advisor to the President's Council of Economic Advisers and National Aeronautics and Space Administration.

**Thomas P. Scott, President and Chief Operating Officer.** Mr. Scott has been with Informa since 1989 with the majority of that time being the head of the Informa Economics Memphis-based Project Consulting Group. Mr. Scott's specialized work has included business strategy, agribusiness economic development, feasibility and site selection work, as well as various market analyses. In addition to his work in North America, Mr. Scott has extensive experience in the agribusiness sectors of Central Europe, Southeast Asia and South America. He has been involved in many training programs developed and delivered by Informa Economics. Prior to joining the company, he had various assignments in management, trading, logistics and merchandising with Continental Grain Company. He received his bachelor's degree in agricultural economics and business from Cornell University and a master's degree in business administration from the Amos Tuck School of Business Administration at Dartmouth College where he was an Amos Tuck Scholar.

**Rob M. Westmoreland, Executive Vice President.** Mr. Westmoreland is coexecutive of the Informa Economics grains, oilseeds, and other crop and food ingredient research and analyses functions and client services. His many food and agribusiness consulting assignments include commodity planning, price risk management and business strategic planning for a wide spectrum of US and international food and agribusiness companies. Previously, Mr. Westmoreland was group vice president and general manager of Pillsbury Industrial Foods. His management experience includes economic analyses and commodity risk management, business strategic planning, marketing, and general management in food processing. He is an economics graduate of Rice University and of the Stanford University Graduate School of Business.

**William C. Motes, Chief Economist.** Dr. Motes' primary responsibilities include client consulting for international commercial clients and development projects out of the Washington, D.C. office. Formerly, he was a principal member of Economic Perspectives, Inc. and served as director of policy analysis for the Secretary of Agriculture (1979-81). Dr. Motes was associate director of USDA's Budget and Program Evaluation Office and also was legislative assistant for agriculture for US Senator Dick Clark. He holds degrees in agricultural economics from Kansas State University and received his doctorate in agricultural economics from Iowa State University.

**Mr. Joseph F. Somers, Senior Consultant.** Mr. Somers conducts economic analyses of agricultural policy issues out of the Informa Economics Washington, D.C., office. He came to Informa with 27+ years' experience with USDA's Foreign Agricultural Service (FAS) as a foreign-service officer and as a consultant in the private sector. While at FAS, he served in Brazil and Argentina and traveled extensively on overseas fact-finding trips. In Washington, he supervised and conducted world supply/demand and trade policy analyses for a wide range of commodities and managed publication of several analytic circulars. Most recently, he was director of research and marketing for the GIC Group, Alexandria, Virginia, where he was responsible for business development and economic and market analyses. He received his bachelor's degree in political science from Northeastern University, Boston, and master's in agricultural economics from the University of Massachusetts, Amherst.

**Mr. Juan E. Sacoto, Senior Vice President:** With Informa Economics since 1997, Mr. Sacoto is the leader of Informa's Financial Consulting and heads the Biodiesel Consulting practice with his primary responsibility including research and analyses for international and domestic consulting clients. His work often involves market assessment, financial and competitive analyses, economic modeling, strategy, international economic development, and economic impact and risk management studies. Mr. Sacoto has extensive experience working in the renewable fuels industry, in particular biodiesel and oilseeds, and across several agricultural, food and related markets including grains, livestock, fisheries, fertilizers, and fruits and vegetables. He also has extensive practical experience working on evaluating agribusiness and renewable fuel projects across several regions including Latin America, Europe and Africa. He is fluent in Spanish and has broad cross-cultural training. Prior to joining the company, he worked as a financial and equity analyst. He received his bachelor's degree in finance from Jacksonville State University and his master's in international business administration from The University of Memphis.

**Scott A. Richman, Senior Vice President:** With Informa Economics since 1991, Mr. Richman is the leader of Informa's Commercial Consulting. Among Mr. Richman's responsibilities for services to commercial clients, he directly manages the ethanol and biotechnology consulting practice areas. Mr. Richman has extensive experience conducting financial feasibility studies, preparing business plans, directing economic impact studies, constructing market forecasts and advising companies on the positioning of products within specialized markets. In addition to work throughout the United States and Canada, he has participated in consulting projects in Western Europe and Poland. Mr. Richman serves on the advisory committee to the Southern Growth Policies Board regarding the creation of a Southern Common Market for Alternative Fuels. He also was selected to serve on the panel developing the North America and Europe assessment for the International Assessment of Agricultural Science and Technology for Development (IAASTD), an intergovernmental effort cosponsored by the World Bank and other international institutions. He received his bachelor's degree in economics from Vanderbilt University and his master's degree in international affairs at Columbia University, where he specialized in international business and was an Honorary International Fellow.

### **About Informa Economics**

Informa Economics, Inc. (formerly known as Sparks Companies, Inc.) is a world leader in broad-based domestic and international agricultural and commodity/product market research, analysis, evaluation and consulting. The company was founded in 1977 and, in 2003, was acquired by Informa plc ("Informa") as part of its AGRA division. Informa Economics, Inc. serves hundreds of firms, institutions and trade organizations worldwide from our headquarters in Memphis, Tennessee.

***Our Mission: "To be a Vital Force in the Success of Agriculture, Food, Energy and Transportation Interests Around the World."***

The company's professional depth and experience allow us to provide a wide range of services related to the economic and management concerns of clients. Underpinning these services, our principal strengths lie in an expansive information base and a professional and experienced staff. Employees are well-trained and seasoned researchers and consultants with extensive backgrounds in business and government; most hold advanced degrees in agriculture or related fields. The Informa Economics team has extensive experience in worldwide agribusiness and agricultural policy decision-making. Many Informa Economics employees have gained insights from past government service in senior policy, analysis and advisory positions; from major trade associations; from land grant universities; and as senior officials of leading agribusiness companies.

In its role as a world leader in comprehensive commodity, food industry and agribusiness research and consulting, Informa Economics offers several broad categories of services:

- Research/Analysis/Evaluation
- Business Consulting
- Education/Training
- News/Communication
- Energy

**About our Parent Company**

Our parent company, Informa plc, is the leading provider of specialist, high quality information to the global academic, scientific, professional, and commercial markets via publishing, events, consulting and training. Informa publishes approximately 2,500 subscription based products and services, has a book backlist of over 35,000 volumes, organizes some 10,000 events worldwide each year and has a database of approaching 22 million names. It has an unparalleled portfolio of brands including Lloyds List, Routledge, Taylor and Francis, IIR and Euroforum. Informa employs approximately 7,000 people operating out of 150 offices in 42 countries and doing business in 70. Informa is listed on the London Stock Exchange.



## ***ENROLLMENT FORM***

- Yes, I want to participate in the special multi-client study, entitled “*The Structure and Performance of the Farm Sector in an Era of Volatility and Uncertainty.*” The cost of the study for current Informa Economics’ clients is \$18,500 and \$22,000 for non-clients. One half will be billed upon initiation of the study and the remaining one half upon my receipt of the final written report.

**Return Form to Informa Economics, Inc.**  
**Via Fax to (901) 766-4471 or (703) 893-1065**

- Please have someone contact me to provide further information.

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Company: \_\_\_\_\_

Street Address: \_\_\_\_\_

City, State, ZIP: \_\_\_\_\_

Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_

E-mail Address: \_\_\_\_\_

**Please feel free to contact us with questions:**

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