

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Team Approach to Management

Market Report	Yr Ago	4 Wks Ago	10/10/03
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$63.58	\$90.16	\$99.15
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	*	106.00	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	85.50	106.33	*
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	97.95	144.67	154.99
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	32.75	42.00	38.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	99.45	113.70	96.09
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	75.75	90.12	89.12
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	154.68	180.16	180.79
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	4.79	3.41	3.25
Corn, No. 2, Yellow Omaha, bu	2.34	2.18	2.01
Soybeans, No. 1, Yellow Omaha, bu	5.08	6.07	6.95
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.57	4.07	3.95
Oats, No. 2, Heavy Minneapolis, MN, bu	2.10	1.53	1.58
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	130.00	130.00	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	77.50	61.25	65.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	115.00	*	*
* No market.			

In 2003 Key and McBride¹ found that pork operations using production contracts improved productivity. They asserted that improvement in the quality of managerial inputs such as improving information transfers and facilitating access to credit may account for such improvements. Alvarez and Arias² suggested that fixed managerial ability causes agricultural operations to suffer dis-economies of size. Managerial ability, as described by Kaldor³, consists of supervision and coordination. Supervision is crucial for numerous individuals to work together to complete the responsibilities for common production results. The coordination aspect is that function of deciding which arrangements or contracts should be entered into. While one can hire additional supervisors, it is difficult to hire more people who decide what arrangements or contracts the operation will enter into. Having one decision maker becomes a limiting factor for the performance of the operation. The solution to this fixed unit is the productive combination of management that assigns responsibility for parts of the decision process. The need is reduced for one decision maker to have all the available knowledge that can affect the business.

Today's systems-oriented hog farms require a high level of supervision and coordination. Systems can quickly become ineffective if everyone involved in the operation is not supervised so that they work together. Strategies to boost efficiency are usually complex and require a great deal of cooperation among individuals. Detailed records are needed to improve supervision and allow monitoring of the system. Everything in the production system, from daily production records, facilities condition records, environmental system records, recording correct feed use and antibiotic withdrawals, to delivering the final product must be analyzed for the system to be competitive. Analysis must be accompanied with a method of supervisory intervention whenever the system is not performing at its optimal rate.



All of this information must originate from the employees or the supervisors. This information needs to flow smoothly to and from the production personnel and supervising personnel. Bringing these people together for special or regular meetings is important for the system to perform at its best. Moving the information from the production stage to the decision makers requires another seamless transition.

Many operations also rely on advice from consultants to ensure long-term profitability. Including them in the information flow takes even more effort. Cooperation and trust between consultants, managers and employees is essential. Regular meetings with open communication are needed to insure the team is productive.

Beyond the production system, 21st Century agriculture is called on to justify its right to be in business, with business records that go beyond production or profit and loss. The business needs to assure society that it has complied with regulations and utilized best management practices. Records are needed to document that performance. Even farther, information needs to be available for a variety of non-regulatory market issues. Customer preferences drive processors to provide data on the way livestock and crop products are handled and raised. While initially thought of as a way of niche marketing a differentiated product, identification and information about commodity products is fast becoming part of information expected in the food chain. For pork producers, programs like Pork Quality Assurance (PQA), Trucker Quality Assurance (TQA) and the Swine Welfare Audit Program (SWAP) are becoming standards for producers to engage in and document. Future challenges like Country of Origin Labeling (COOL), environmental site management and the Environmental Protection Agency's (EPA) Confined Animal Feeding Operation (CAFO) regulations will challenge producer coordination.

Coordinating all the activities challenges the ability of any individual. Decisions regarding business methods, arrangements, markets, contracts and partners become critical. Operations that have a team of management expertise who divide the coordinating activities into distinct responsibilities have a competitive advantage.

Agricultural managers will need to learn how to appreciate, employ and extract value from the use of intangible assets (Sonka, 2000)⁴. The skills that do so and create the competitive advantage, which results in higher rewards, are changing. Producers recognize and express the need to improve skills, especially education in business management, as noted by Reese, et al.⁵ from their survey of pork producers. They found producers need to:

- Have trusted resources to improve their information.
- Have greater knowledge of the value of their products.

- Have a better awareness and understanding of what changes to make in their operation.
- Be able to create and manage intangible assets such as information and relationships.
- Capture more knowledge out of their operations and out of the transactions with both input suppliers and output buyers.
- Use that knowledge to improve their competitive advantage.

A team working together to develop these advantages raises the bar of production competition. Units capable of developing and implementing such a team may in fact be far more competitive than simple economies of scale might indicate. By improving overall performance of individuals, eliminating common daily problems and better managing biological systems, they likely increase productivity as well.

Independent producers who find ways to obtain added managerial support may be able to improve their competitiveness. Those producers may find that spreading managerial responsibility around will allow each individual to better coordinate those parts of the operation for which they are responsible. While many family producers recognize the need to put an individual in charge of enterprises such as crops, livestock, machinery, marketing or financial recording, the competition between producers suggests that management responsibilities within enterprises may also need to be spread among more decision makers.

The bigger challenge comes to those operations with fewer participants. Producers with only one or two persons in their operation may have to look for new methods to find the expertise and direct it to their individual operation. One thing is certain, to run an effective farming operation will require more management ability in the future.

References:

- ¹ Key, Nigel and William McBride. "Production Contracts and Productivity in the U.S. Hog Sector." *American Journal of Agricultural Economics*, 85(1) February 2003: 121-133.
- ² Alvarez, Antonio and Carlos Arias. "Dis-economies of Size with Fixed Managerial Ability." *American Journal of Agricultural Economics*, 85(1) February 2003: 134-142.
- ³ Kaldor, Nicolas. "The Equilibrium of the Firm." *The Economic Journal*, 44(173) March 1934: 60-76.
- ⁴ Sonka, Steve. "Challenges in Managing the Business." A paper presented before the American Agricultural Economics Association Workshop on "Policy Issues in the Changing Structure of the Food System." Tampa, Florida: July 2000.
- ⁵ Reese, D. E., A. L. Prosch, S. S. Blodgett and S. K. Rockwell. "Education Needs of Nebraska Pork Producers and Employees." Abstract of a paper for the American Society of Animal Scientists, 2002, University of Nebraska-Lincoln.

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