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Texas A&M AgriLife Extension

Agriculture and the 2008 Credit Crisis

Alternative Farm Business Models

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Economic downturns and periods of financial stress tend to increase the need for producers to consider alternative ways of doing business, and their willingness to do so. Several progressive producers across the country have used new approaches to capture economies of scale, reduce costs, improve asset utilization, and employ higher levels of technical expertise.

Two very efficient businesses are United Food Service Purchasing Co-op (UFPC) and Restaurant Services Incorporated (RSI). Both are closed cooperatives. USFC is owned by the YUM Brand companies: KFC, Pizza Hut, Taco Bell, Long John Silver's and A&W. RSI is owned by the Burger King franchisees. Both serve as the supply chain manager and exclusive purchasing agent for their members. This includes risk management. Last year UFPC did more than $5 billion in business with about 200 employees; RSI topped $3 billion with about 75 employees.

If national brands and Fortune 500 companies believe they achieve greater efficiency, reduced costs, and better risk management by working together, farmers with $1 million, $10 million or even $100 million in revenue might also consider the benefits of working cooperatively. Farmers and ranchers can maintain the separate ownership and operating management of their businesses and still achieve economies of scale, critical mass, lower costs, and more quality and depth in specific technical/management skills by joining forces in separate jointly owned entities. Most of these have been structured as LLCs and closed cooperatives. The scale of these entities can and does vary, depending on the purpose and objectives of the parties involved.

Here are some examples.

In one case, three farms share the services of a Chief Financial Officer (CFO), who is also a Certified Public Accountant (CPA) with experience as a corporate controller. They also share a data entry secretary/bookkeeper. In this way they are able to do true cost accounting and still keep their costs to a level each can afford. The CFO has children and wants to work part-time on a flexible schedule. She is paid $75,000 per year and works 30 hours a week. Because she is in a rural area, she has fewer career options at which to employ her skills than in an urban market. The secretary is paid $35,000 and the overhead runs $40,000, for a total of $150,000 divided equally among the three operations. The two staff members make sure bills are paid, manage vendor accounts, monitor budget versus actual performance variances, perform financial and feasibility analyses, and generate a variety of management reports.

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Another group of three farmers in different regions of the country jointly own planters and combines and share labor to lower per acre costs and keep expensive resources working 6 months a year rather than 2.

A third group of five vegetable producers formed a marketing company that generates marketing and production contracts for the export market. Contracts are first offered to the member/owners, but the company also contracts with non-member growers for any additional volume or if the owners decide to pass on an opportunity.

Other groups of 3 to 30 producers have formed entities that handle a number of functions:

- Personnel recruiting, training and record keeping
- Risk management
- Input purchasing and contracting (some of these contractual arrangements are very innovative)
- Product and services advertising, marketing, selling and contracting
- Veterinary services
- Nutritionist services
- Agronomic services
- Bulk feed, fuel, fertilizer and grain storage
- Processing plants
- Feed mills
- Repair shops
- Trucking
- A leasing company
- Biodiesel processing to produce their own fuel
- Self insurance pools
- Genetic services (i.e., sires and donors for artificial insemination and embryo transfers)
- Exporting and importing of breeding stock, fruits and vegetables and specialty grains

These separate, jointly owned entities do not necessarily employ people and resources full time. Some of them also outsource contracts for specialized services that they need only occasionally or that are too expensive to do themselves.

Joint efforts often extend to services that are beneficial only if there are multiple participants and perspectives. Some obvious examples are research test plots and financial and operating performance benchmarking. Another is needs-based training. Assume that several producers decide they need training in some area of personnel management, succession planning, process improvement techniques, options strategies, or other topics. The type of program they need might require 1 to 3 days and cost $3,000 to $5,000 a day, plus expenses (depending on the quality of the trainer). If the program isn't available through their state's Extension service, the cost for one producer could be prohibitive; but shared by five to 20 producers, it could be very reasonable. In addition, the questions and perspectives of multiple participants will likely open up some possibilities and issues that wouldn't otherwise be discussed.

Producers who want their farms to continue as full-time businesses beyond the current generation must continue to explore new ways of doing business. The possibilities are limited only by one's imagination.

Additional publications on this topic are available at the Texas AgriLife Extension Bookstore (*http://agrilifebookstore.org*). Use the search term "risk management."

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