

# What Gives A Farm A Continued Competitive Advantage

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As a member of the editorial committee for the Journal of the American Society of Farm Managers and Rural Appraisers, I was asked recently to rate the best articles published in their 2009 journal. Among articles that I considered very timely and useful, an article by Elizabeth Yeager and Michael Langemeier at Kansas State University described how they measured continued competitive advantage among a group of 377 Kansas farms from 1988 to 2007.

Yeager and Langemeier recognized that most agricultural economists look at the characteristics of successful farms rather than looking at how a farm can maintain a competitive record of success over time. They used efficiency as the measure of continued success – producing at the lowest cost per unit of production, getting the highest production for a given amount of inputs and the ratio of total value of output to total expense. They divided the sample of farms according to those significantly above average, about average, and significantly below average.

The authors concluded that it is difficult for a farm to be above average each and every year.

Value of production varies greatly among overall efficiency categories. The above average category averaged farm production of \$332,709, and the below average category had an average value of production of \$109,601. Of the farms below average, 56 percent had a value of production less than \$100,000.

Despite difference in farm size, the percent of value of production from beef, oilseeds, small grains, was not significantly different among the overall efficiency categories.

Cost shares were significantly different. The below average group typically spent a greater share on labor and capital while the above average group spent a larger share on purchased inputs. These results show the difficulty that farms in the below average category have in controlling labor and capital costs. Capital costs included repairs, machine hire, cash farm rent, property taxes, insurance, cash interest, conservation expenses and depreciation. For the below average farms, capital costs were 93 percent, but only 56 percent for the above average group.

Other major differences were total crop acres, number of operators, numbers of workers and financial performance. The authors suggest that

it is possible for the smaller farms to have a competitive advantage over the 20 year period, but it was more common for them to be at a competitive disadvantage. Less than 1.2 percent of the farms with an average value of farm production under \$100,000 had above average overall efficiency while approximately 68 percent of the farms with a value of farm production over \$500,000 had above average overall efficiency. About 68 percent of the smallest farms and only 5 percent of the largest farms were in the below average efficiency category.

The economies of size played a major role in this the Kansas farm study. It is probable that this would be true on many other farms in mid America. The authors suggest that it is possible for some firms to outperform their rivals over a long period of time.

The farms with a sustained competitive advantage were significantly larger, had significantly lower expense ratios and higher profit margins. About 68 percent of the farms with production greater than \$500,000 had a sustained competitive advantage while only 1.2 percent of the smallest farms with average farm production under \$100,000 had a competitive advantage.

A substantial proportion of small farms have a competitive disadvantage. Small farms tend to be covering cash costs but in most cases are not coming close to what they could be doing. For a farm to grow and prosper it will need to have a competitive advantage. While it was possible for some farms to have a competitive advantage, it was very difficult for a farm to consistently outperform farms of a similar type every year.

The authors conclude that one of the biggest challenges to farms today is to identify and take advantage of unique resources to create a competitive advantage. The authors believed that unique resources could be identified through a survey of producers asking about the factors they believe give them an advantage over others. Farms that cannot find some unique resource will find it increasingly difficult to compete in tomorrow's agricultural industry. However, the authors also expect that the characteristics and resources between farms with a competitive advantage will change in the years ahead.

To further help farm and ranch operators, agricultural economists will need to identify more specifically the different characteristics and resources between farms with a competitive advantage and a competitive disadvantage. Δ

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