Production versus Revenue Bias

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Without question, Saskatchewan's most significant growth opportunity lies in agriculture. With just under 50 per cent of the arable land base in Canada, Saskatchewan enjoys a natural advantage in terms of productive capacity. However, the industry has not converted its asset base into a dominant position in production value.

By comparison, Ontario holds eight percent of the agricultural land in Canada and they generate just over one-quarter of the industry's output (in dollar terms) on less than 10 per cent of the land. Saskatchewan, on the other hand, has roughly 50 per cent of the nation's farmland but the value of output (gross farm gate receipts) was 15 per cent of the national total. That means we have parlayed nearly half the land into one-sixth of the industry's value.

Going one step further, Ontario has captured half the nation's food processing activity (valued at $50 billion annually) and Saskatchewan has two per cent or $2 billion. In other words, Ontario has converted eight per cent of the land into one-quarter of the output and half the food processing sector. Saskatchewan has turned half the farmland into one-sixth of the output and two per cent of the processing.

To look at this in another way, Saskatchewan has specialized in low value agricultural production. While we produce large volumes of commodities, they tend to be low valued crops. Based on farm gate receipts in 2000, Saskatchewan stood in last place when output is measured in value per acre at less than $90.
By comparison, Ontario, Quebec, PEI and Nova Scotia range from $400 to $600 per acre. Merely matching the output value in most Canadian provinces would expand Saskatchewan agricultural receipts from $6 billion annually to $30 billion.

Achieving that level would effectively double the size of the provincial economy. Currently, agriculture represents approximately 10 per cent of the province's GDP. Saskatchewan's output model, based on the production of low value, high volume commodities for export, is subject to shrinking margins inherent in commodity production. Producers, researchers and suppliers respond with efforts to drive increases in output which, in turn, increases supplies, putting additional pressure on prices and margins.

The reliance on grain comes at the expense of higher value, more intensive production options, mostly notably intensive livestock operations.

Saskatchewan, at 23%, and PEI are the only provinces that generate less than half their farm gate receipts from livestock. With this province's land base, it should be the national leader in high value, intensive livestock production. Instead we have evolved a system that favors Saskatchewan feeder cattle flowing to feedlots in Alberta. We then ship feed grain to feed those cattle and, ultimately watch our young people go to Alberta to feed our grain to our feeder cattle

A recent evaluation of Saskatchewan's potential to become a more significant player in the livestock industry undertaken by the Saskatchewan Agrivision Corporation suggests the province is poised from both the market and production perspectives - to double the cattle herd as American production declines. At the same time, this province's pork processors are looking for output to grow from less than 2 million animals annually to 10 million.

Studies have shown Saskatchewan would have a competitive advantage in poultry production as well.

These represent growth opportunities in the magnitude of billions of dollars per year. Intensifying the province's agricultural sector not only represents the most significant opportunity in dollar terms, it can be addressed with the least resistance.

Value-added processing has long been touted as a solution to the agricultural economy equation and capturing a larger share of the food dollar, but the willingness of entrepreneurs or producers in the province to embrace the concept has been lacking. In part, this reflects a North American reticence to convert primary producers into industrial farm operators. Unlike Europe, where producers joined forces to acquire equity positions deeper in the value chain - in effect they established processing facilities to handle their own primary production – North America has largely seen the opposite where processors have reached down the chain to acquire production capacity.

Adopting an agricultural policy dedicated to "intensifying" primary production would begin to address cash flow issues on the farm and significantly increase the province's GDP while skirting the resistance to value-added activity.

Aggressive targets for enhanced revenue are a requirement of such a policy. Alberta has established firm goals for its industry to pursue. By 2005, that province envisions farm gate (primary production) of $10 billion annually and value-added or processing revenues of $20 billion by 2005. If attained, that would effectively double the province's agricultural sector.

Agri-tourism

Finding new mechanisms to derive greater revenue on individual farm operations - an effort dubbed 'intensification' as a complement to the more traditional diversification - opens the door to a wide range of commercial opportunities on the province's farms. One that has shown success here and abroad is agri-tourism.

Urban concentration and a growing desire among average citizens looking for alternative recreational experiences has been turned into relatively small but successful agri-tourism ventures. From bed and breakfast operations to farm vacations to operations that integrate production, processing, retailing and hospitality, these units are providing a complementary revenue stream for struggling farms. This sector remains relatively small and has not developed a coordinated or wide scale marketing strategy. Nonetheless, this represents a significant opportunity for two reasons: first is the added revenue to struggling farms; second is that it offers a new employment opportunity in rural Saskatchewan.

Investment

The transition towards a more intensified output model will require fresh equity capital. Traditional low returns in the agricultural sector and volatile commodity prices mean that conventional investors such as vencaps, pension funds or other risk players have generally bypassed the industry. Nonetheless, to achieve its potential the industry will require huge outside investment. For example, Saskatchewan Agrivision's examination of the potential for expanded hog production and processing identified the need for $1.2 billion in new equity capital merely to construct the barns required to raise the hogs wanted by the processing industry.

When investment in expanded beef and poultry production, irrigation potential and other infrastructure are added, the capital requirements significantly exceed the risk money available in Saskatchewan so a focused external investment campaign will be required. Agrivision and others in the financial services sector have done extensive and noteworthy work in this area, developing innovative approaches to accessing equity capital.

Further, attention to attracting management, professional support, marketing and financial services infrastructure will be a pre-requisite to attracting significant outside investment to the province.

Transition Funding

Transition funding may come in several forms. It may facilitate a transition from grain to livestock or mixed production; it may provide an exit strategy for older farmers trapped in the industry because of a lack of prospective buyers; it may assist producers move into new forms of intensive production; or processing.

This is a significant departure from the traditional requests for funding that flow from the farming sector itself. These requests have tended to focus on short-term support from public treasuries which, historically, have done little or nothing to address the fundamental problems of insufficient revenues and processing. Future funding from senior levels of government must address the 'transition' that agriculture requires and move away from ad hoc or stop gap support.

Immigration

Coupled with attracting investment requirements for an easing of land ownership restrictions and a renewed focus on immigration.

High land values in places such as Europe present a significant development opportunity in Saskatchewan. High net worth producers from abroad would inject new capital in this province's agricultural sector and they could be enticed to the province with the promise of lower valued, but highly productive land. What is presently missing in this equation is a concerted marketing strategy designed to promote Saskatchewan as a land of opportunity for aggressive agricultural producers feeling constricted by urban sprawl, increasingly stringent environmental rules and growing intrusion of urban-based attitudes on farm practices in densely populated regions.

The Farm Business Model

In general terms, only a few of the larger or more sophisticated agricultural enterprises approach their operations from a 'business' perspective. Most are small enterprises - only 20% of our farms have commercial revenues exceeding $100,000 annually. Yet, they require significant amounts of capital for land and machinery - often in the magnitude of 10 times revenue for the successful ones and 20 or 30 times revenue for those now in difficulty.

Further, the ability for farmers to report their incomes using the cash accounting method provides short-term benefits from a tax perspective but undermines management's ability to accurately access viability and profitability. Few agricultural enterprises couple cash accounting with accrual accounting practices for management purposes, masking the true viability of the agricultural enterprise. Too often we hear of farmers who minimize income in order to avoid tax at the expense of building retained earnings in the business.

Mandatory accrual accounting for farm enterprises would enhance management and be a catalyst to fostering the changes the industry requires. Moving towards a model that focuses on revenue, net income, return on equity and return on assets is fundamental to sound business decision-making as opposed to yield per acre.

In short, this sector needs to bolster its management expertise, not from an agronomic or husbandry perspective, but from a purely financial and business aspect. Proper reporting of financial performance leads to proper decision-making. This presently is not the prevailing wisdom in agricultural enterprises.

For example, unlike most businesses which are valued on the basis of cash flow, most farm enterprises are valued on the basis of 'assessment' of the land base and the liquidation value of equipment. It does not reflect the unit's ability to generate income leading to excessive debt loads and low operating margins.

One avenue to address the shortage of financial management expertise would involve creation of a 'business mentor' system where non-farm business operators could be partnered with agricultural producers to provide producers with additional advice, delivered by an external advisor.

This idea could be expanded further to encourage merger or quasi-merger initiatives among producers. Successful models such as machinery co-ops have demonstrated the value in pooling resources. Bringing together neighbors to explore the possibility of merging their operations should be encouraged. This opens the door to streamlining equipment lines, reducing overhead and freeing up time and talent to pursue new, intensive initiatives. It is all too common to see neighbors with under-utilized equipment and excessive debt when consolidating the two operations would enhance the fiscal position of both players. Developing a culture that accepts minority ownership of a viable operation, rather than sole ownership of an undercapitalized and under-performing enterprise, is a necessity. This concept has long been accept in other industries - where equity offerings and mechanisms such as stock exchanges are employed to access capital- while this management approach has never been viewed as acceptable among farm enterprises.

Growth: The Opportunity

The concept of targets and success measurements should be carried beyond individual farm enterprises to the overall industry. Establishing broad targets for the industry provides a benchmark for assessing progress and determining the effectiveness of industry policies. Much work has been done in this area by the Saskatchewan Agrivision Corporation and we endorse the direction they have taken. In general terms, Action Saskatchewan advocates setting aggressive targets to stimulate 'out of the box' thinking and to create an atmosphere of expansion and growth. While noting that Agrivision has set an aggressive target of $12 billion in farm gate receipts by 2005, we believe an even more ambitious goal of $500 or $1000 an acre in gross revenue (on a province-wide basis) over a ten year period would cause a significant rethinking of current production methods and approaches to primary agriculture.

Achieving higher revenues per acre would bring two other results: first it would likely mean smaller farms and it would stimulate population growth in rural areas.

On the issue of smaller farms, higher revenues require more intensive management. It also would likely require additional labor. The idea behind intensification is to drive higher revenues, affording the operator the added flexibility of more cash flow to compensate management as well as hire the additional workforce that would be required. In effect, employment opportunities would be spurred in rural regions and reverse Saskatchewan's 50-year trend of rural depopulation, few farms and declining rural communities.

Job Creation

A pre-requisite to repopulating rural Saskatchewan is employment or income opportunities within the region. Historically, agriculture has been the main economic driver, however, declining commodity prices and technology that enable an individual to farm 3,000 acres have led to fewer, not more, FTEs in rural Saskatchewan. A transition to an intensive model would result the growth of smaller farm units alongside the larger players who would continue to serve export customers with traditional commodities. This would address concerns raised by supporters of the family farm who worry about 'industrial' agriculture or the corporatization of farming. A mix of smaller, more intensely managed operations complementing the larger, traditional producer would serve both market segments - smaller niche markets as well as large volume, export buyers.