

Agriculture of the Middle: A Development Model

Rural Cooperation in the 21st Century;
Unique Opportunities for Farm Families

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Frederick Kirschenmann
Distinguished Fellow, Leopold Center
President, Stone Barns Center for Food & Ag
President, Kirschenmann Family Farms, Inc.
leopold1@iastate.edu



What is the Agriculture of the Middle?

- Middle size?
 - Small, large, in-between?
- Middle market?
 - Direct, commodity, differentiated?
- Middle phenomenon?
 - An emerging concept with various features--- including thinking and planning for “resilience”

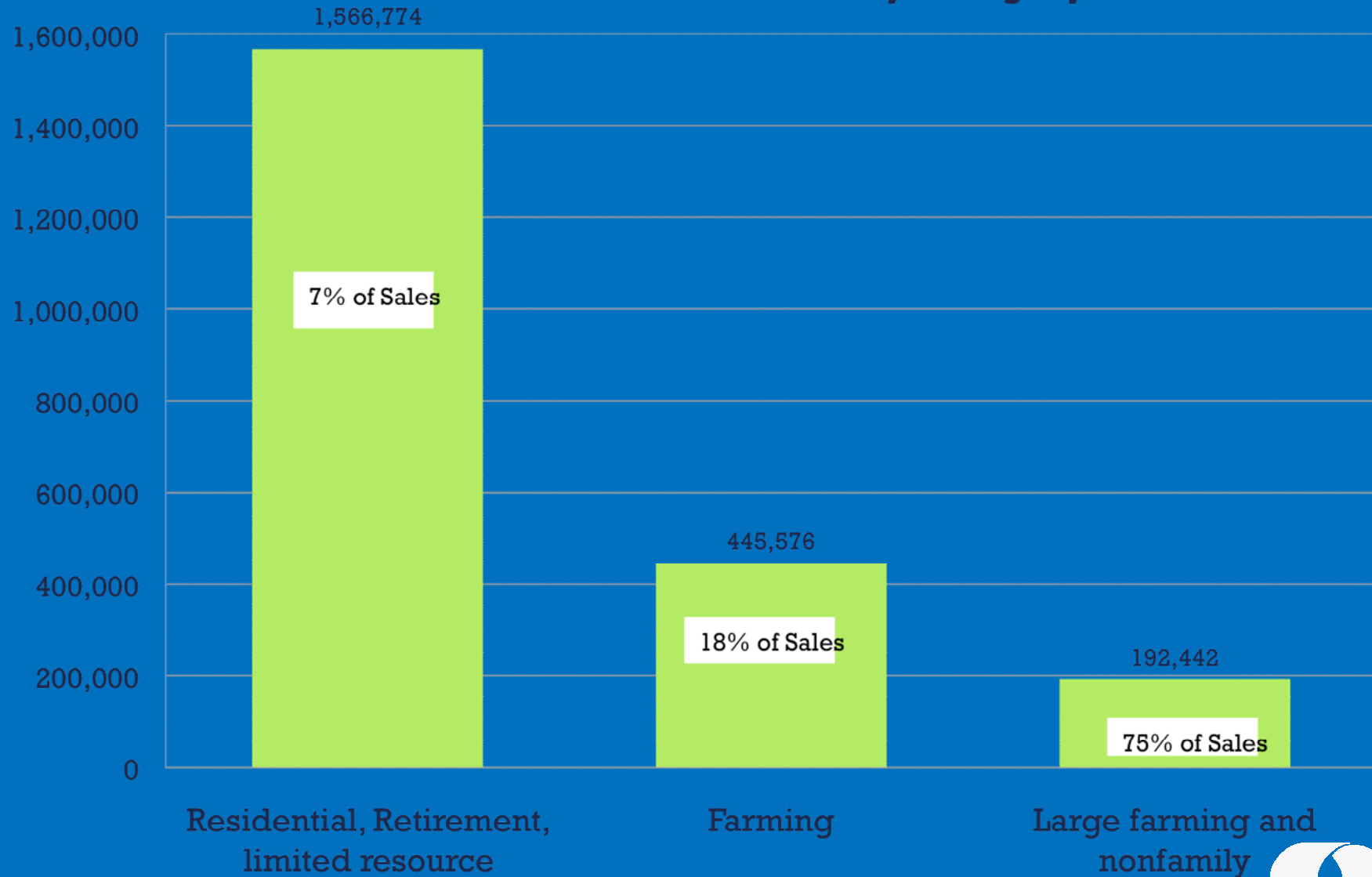
What are the Drivers?

- Emerging Challenges
 - The end of the “neo-caloric era” –Schusky
 - Climate “weirdness”
 - The vulnerability of consolidation
 - Young farmer entry barriers
- Emerging Opportunities
 - The Food Revolution: “Food Citizens”
 - Benefits of cooperation vs domination
 - Potential collapse of the global food system
 - The food and health connection
 - Knowledge intensive advantage

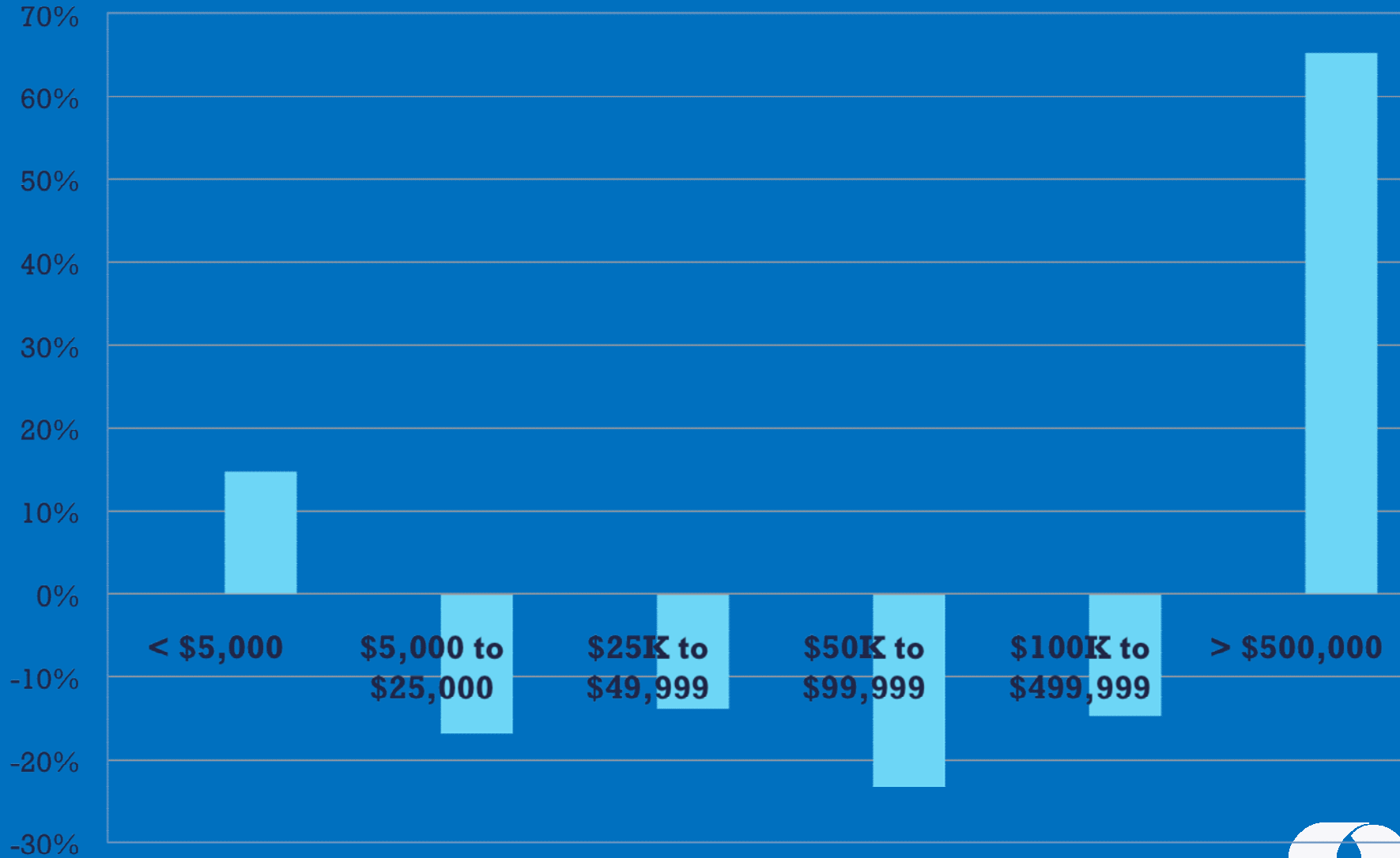
Disturbing Trends

- A Few Statistics: Examples from the US.
 - 2.2 million farmers -- but
 - Crop prices increasing -- but

Number of Farmers in the U.S. by Category



Percent Change in U.S. Farms by Sales Category, 1997 to 2007

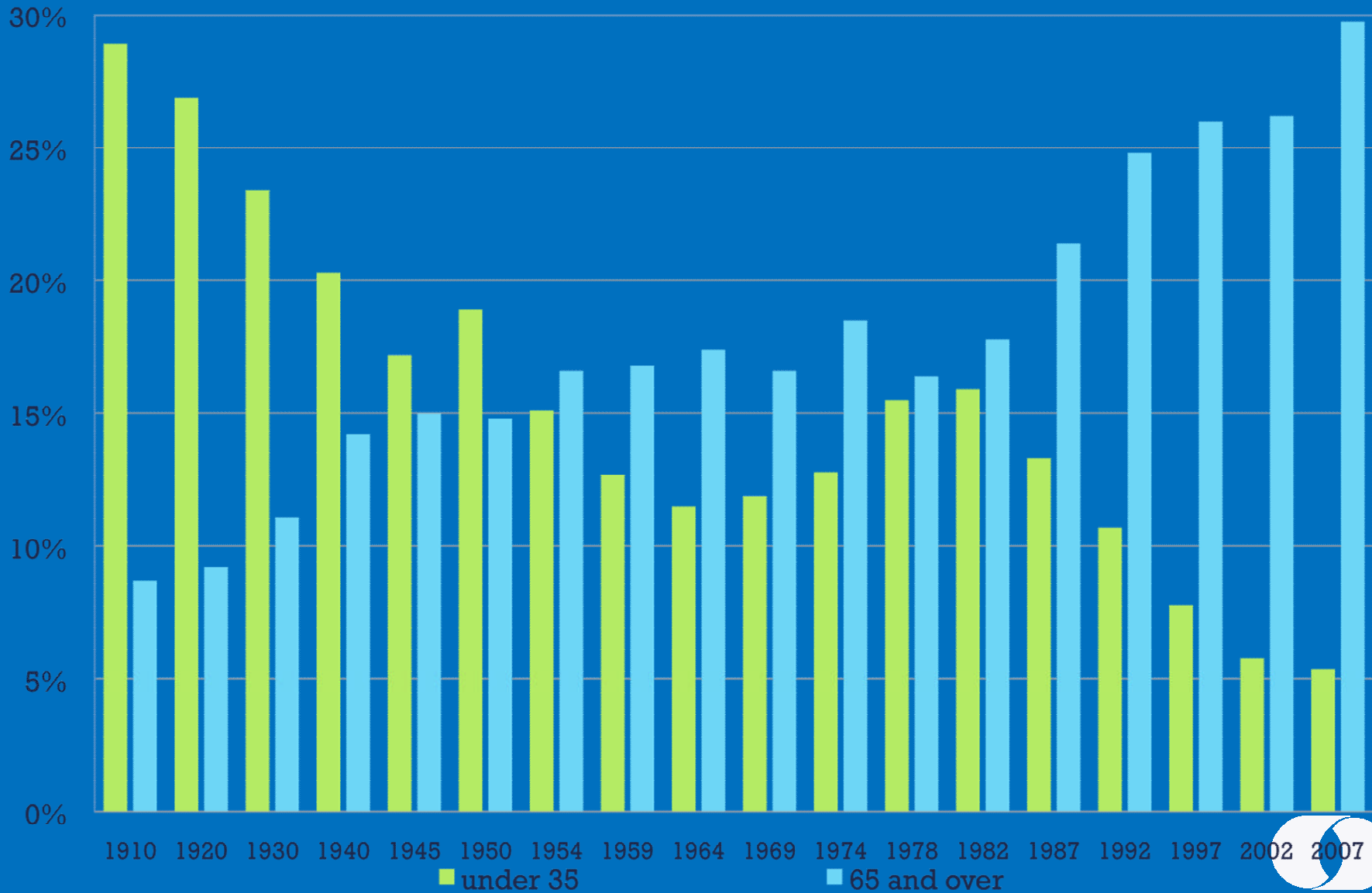


Series1 Series2

Why the “Disappearing Middle?”

Efficiency vs Concentration and
Transaction costs

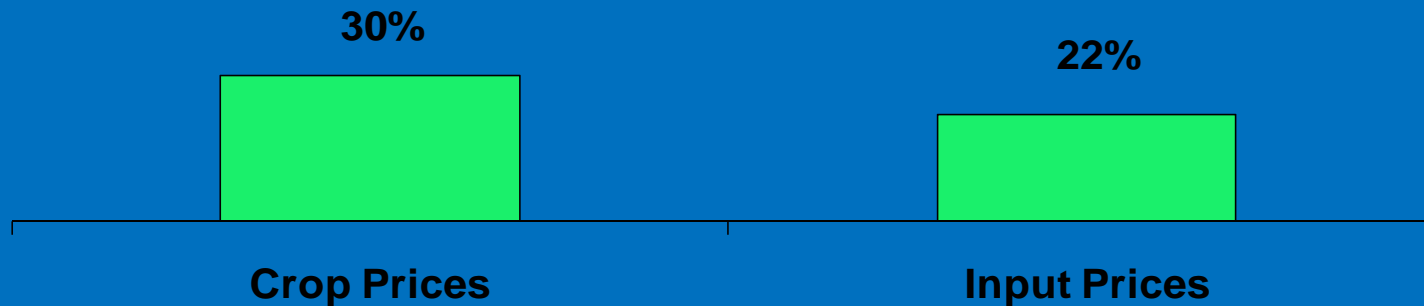
Percent of US Farmers Under 35 and over 65 Years of Age





Increasing Crop Prices are ...

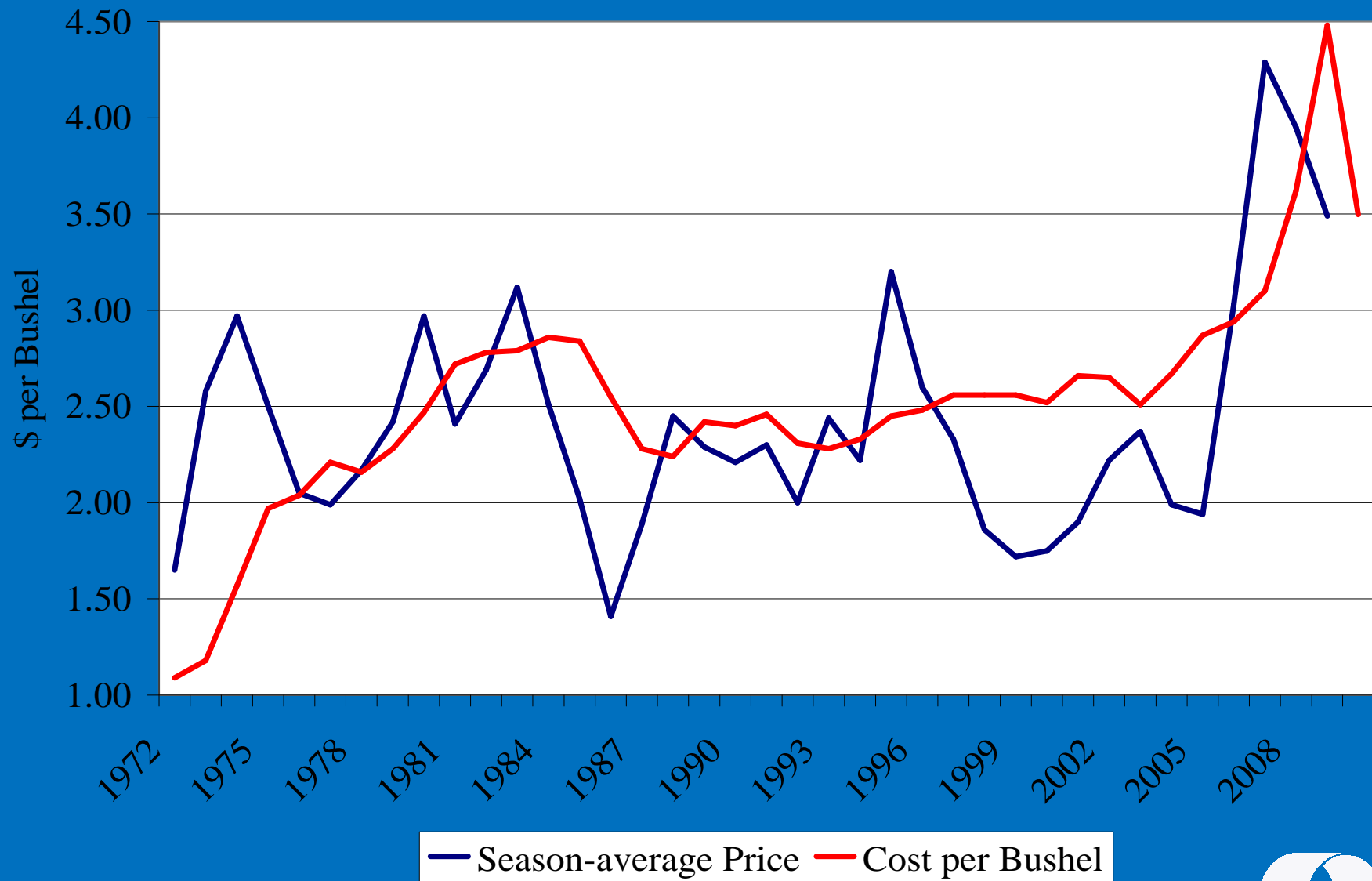
Comparison of prices in July 2007 vs. average 2001-05



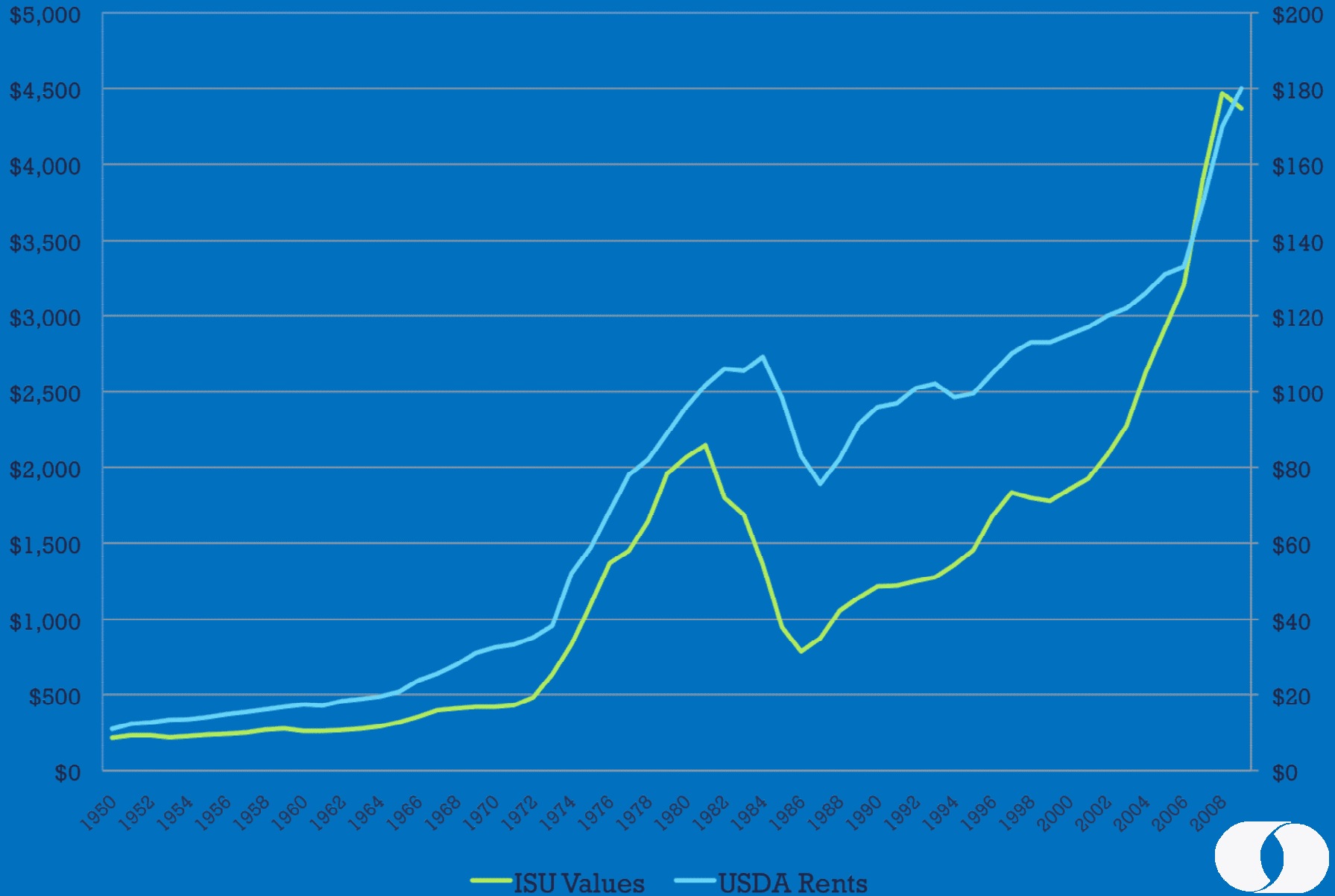
... being followed by increasing costs for crop production inputs
(including interest, taxes, and wage rates)

Source: Original calculations using data from U.S. Department of Agriculture, National Agricultural Statistics Service.

Iowa Corn Prices vs. Costs

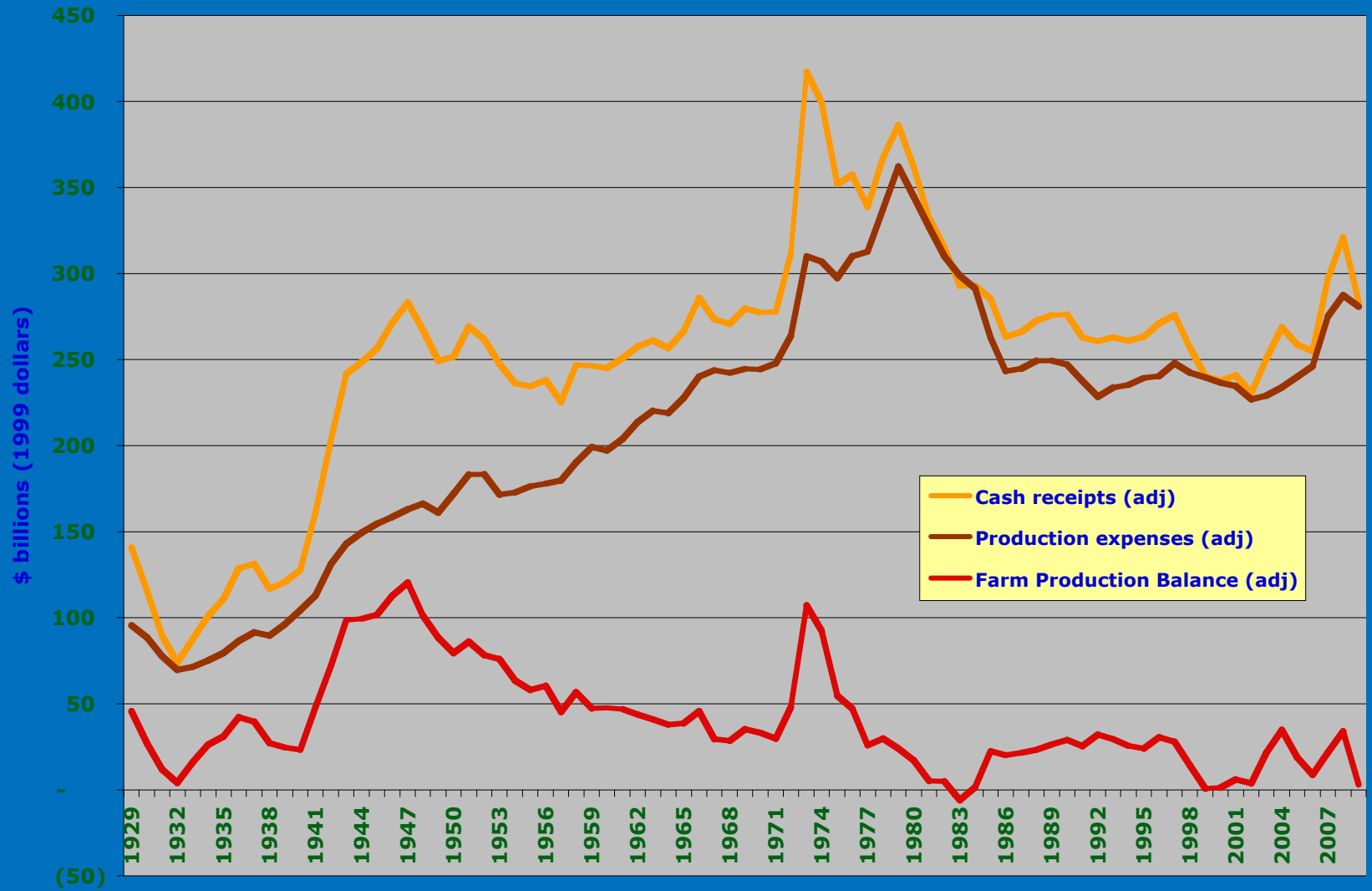


Iowa Land Rents and Values



Farm Production Balance in U.S., 1929 - 2009

Source: USDA/ERS. Chart by Ken Meter, 2009



Choosing a Marketing Path

Michael Porter: Competing in a global economy:

1. Being the lowest cost supplier of an undifferentiated commodity, (price)
- or**
2. Providing the market with a unique and superior value in terms of product quality, special features or after-sales service. (differentiation)

While not impossible it is “extremely difficult for the same firm to do both”

- *The Competitive Advantage of Nations*

The Emerging Alternative Market

“Our company’s marketing strategy is based on memory, romance and trust.”

-- Rick Schnieders, Former President/CEO, SYSCO Corp
(*Keynote, Practical Farmers of Iowa annual conference, January 25, 2003*)

Creating Shared Value

“The traditional playbook calls for companies to commoditize and exert maximum bargaining power on suppliers to drive down prices . . . More recently, firms have been rapidly outsourcing to suppliers in lower-wage locations.”

-- Michael Porter and Mark Kramer

Harvard Business Review, Jan/Feb, 2011

Advantages of Creating Shared Value

“Today some companies are beginning to understand that marginalized suppliers cannot remain productive or sustain, much less improve their quality.”

-- Porter and Kramer

“Fair Trade” vs “Shared Value”

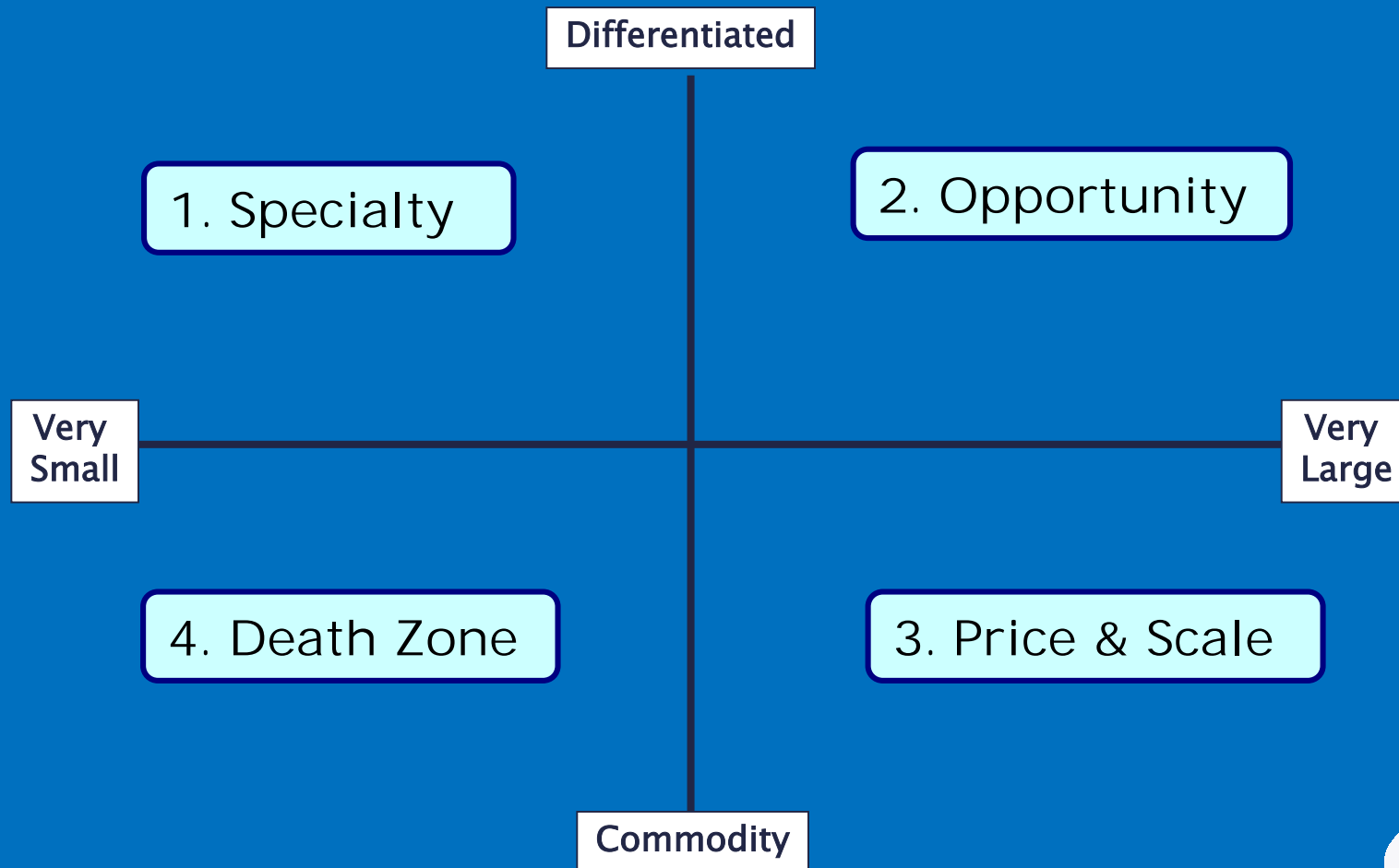
“Fair trade is mostly about redistribution . . . Shared value focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions to increase farmers’ . . . sustainability.”

“Fair trade can increase farmers’ incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%”

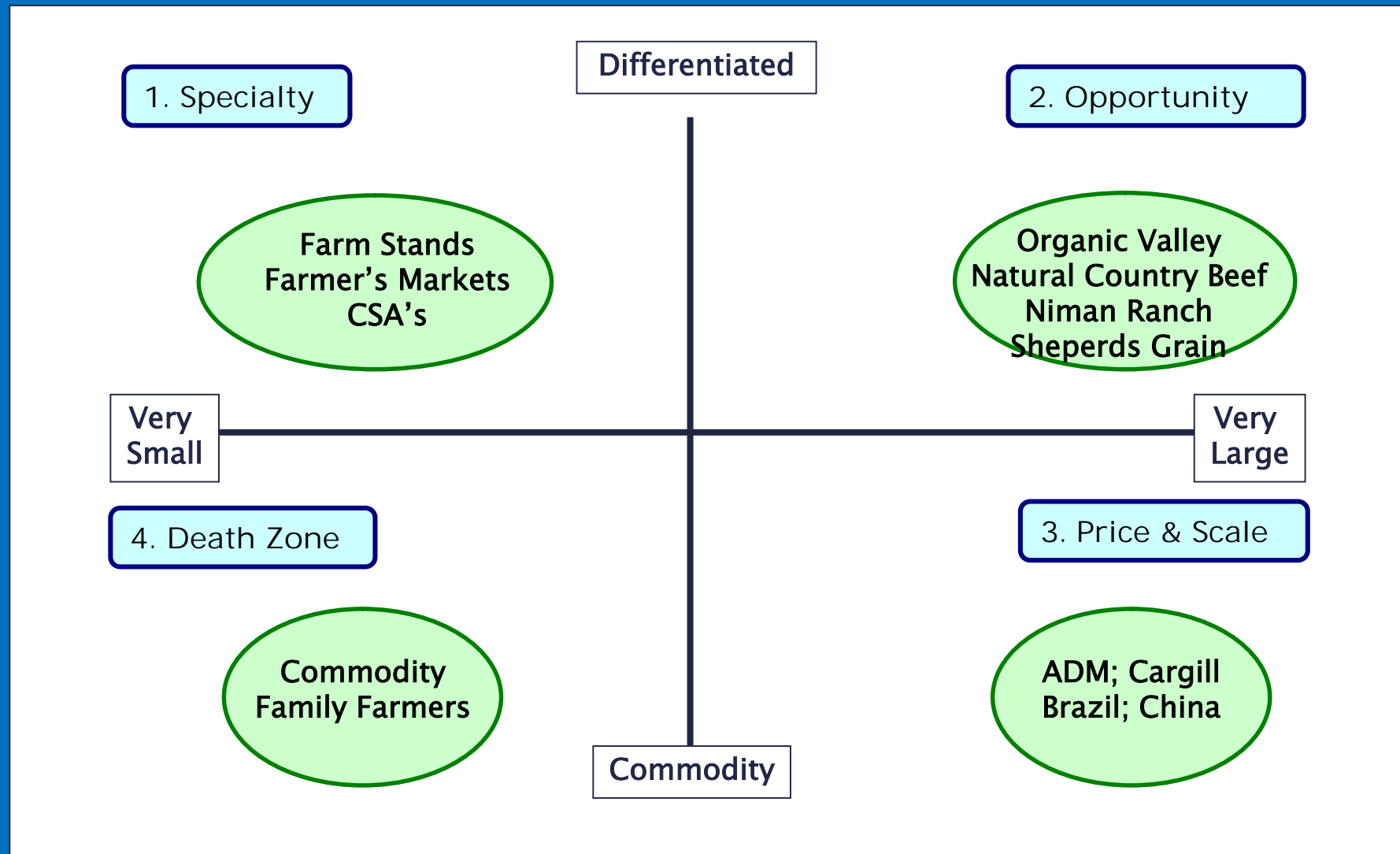
Farmer Choices

To each his/her own

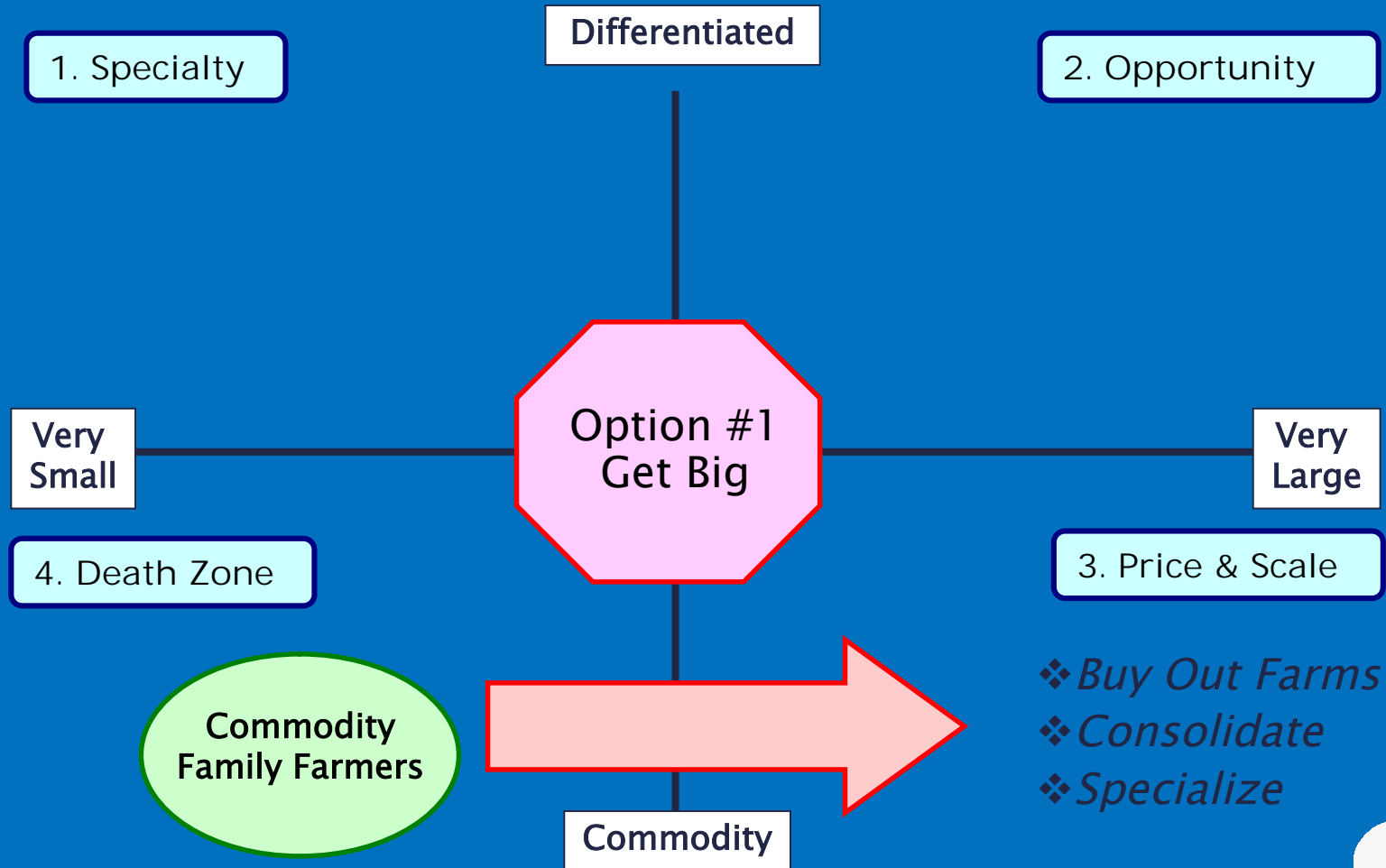
Agricultural Quadrants – Value & Scale



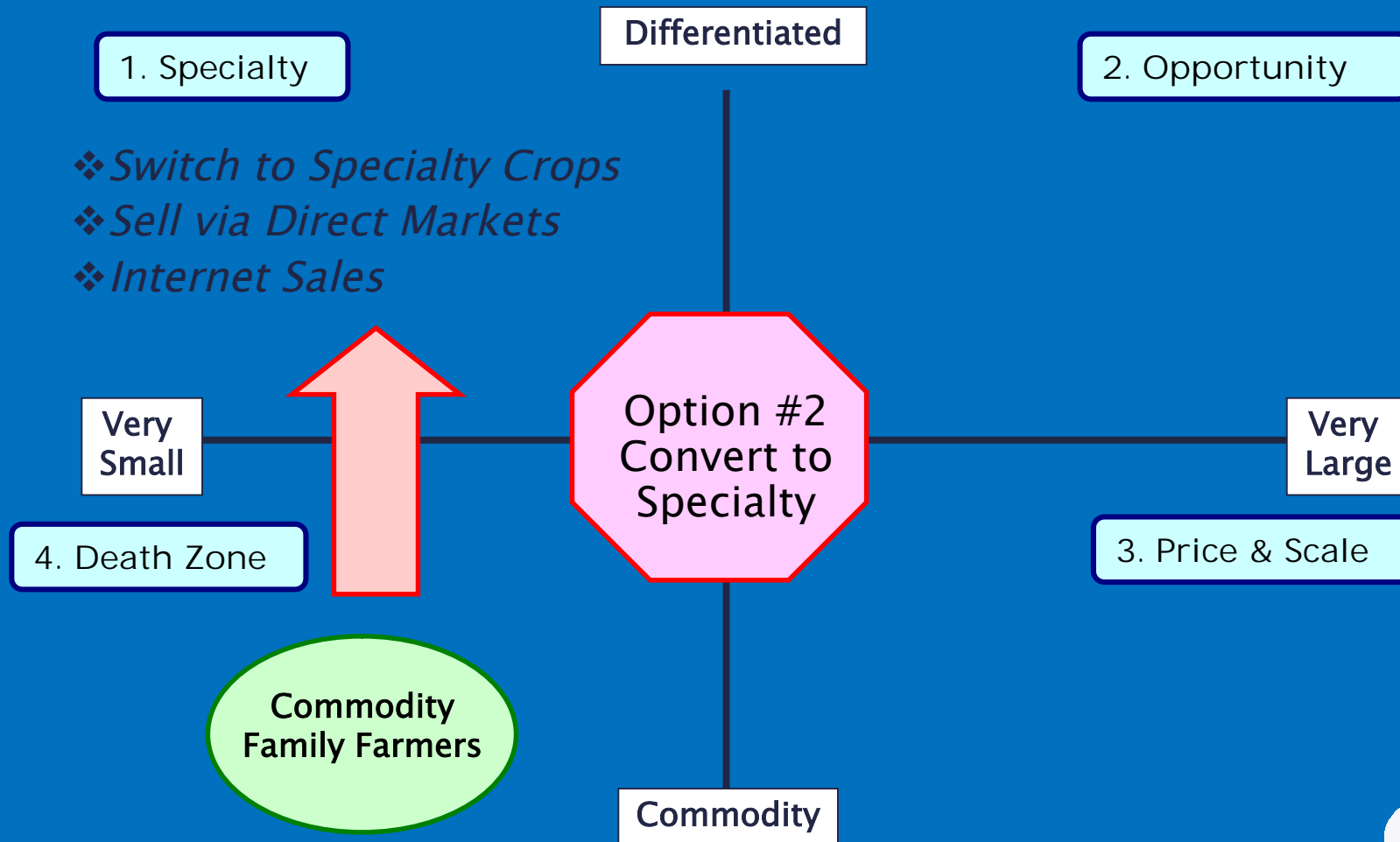
Examples of Participants



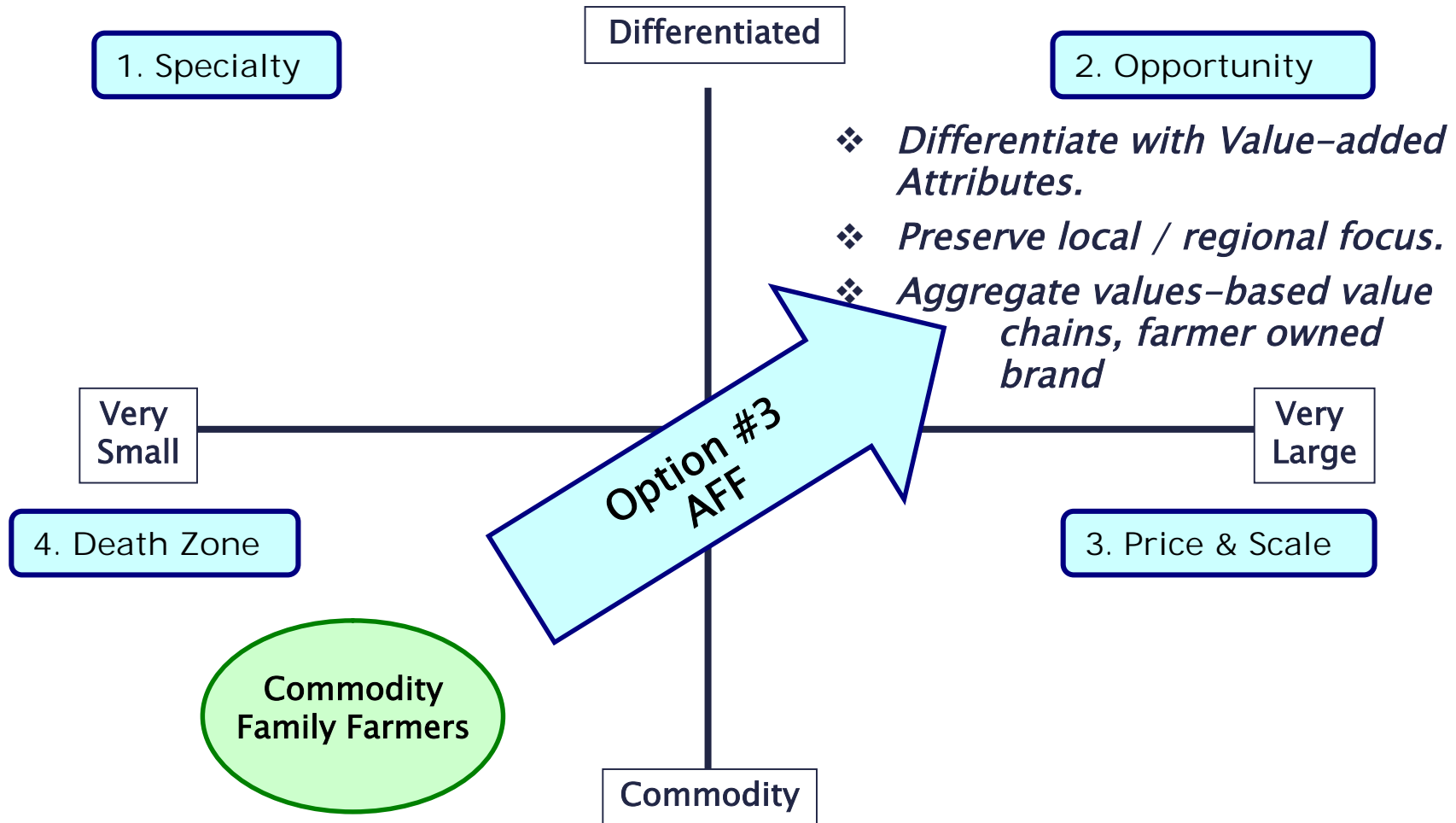
Option #1 – Get Big



Option #2 – Convert to Specialty



Option #3 – Create New Opportunity



What is a V-B Value Chain

- Partnership relationships among:
 - Farmers, packers/millers/processors and food service/retail
 - Supply Chain: Farmer is input supplier
 - VBVC: Farmer is partner

Operating Examples

- Shepherds Grain
- Natural Country Beef
- Organic Valley of Family Farms
- Niman Ranch
- Red Tomato
 - Some success indicators

Is It Realistic?

“Our dream, however, was to partner with the growers and succeed together. We would be there for them, and we wanted them to be there for us.”

-- Ron and Arnie Koss, *The Earth's Best Story*
(Chelsea Green)

Realism in Context

“Yes, we paid growers more, and yes, this ultimately made Earth’s Best more expensive, but this was the price of a fair reality built upon what we valued most and wanted Earth’s Best to stand for: ‘relationship,’ relationship to the earth, to children, to growers, to employees, to investors, and to ourselves.”

-- Ron and Arnie Koss

Beyond the Market

- **Redesigning the Farm for Resilience**
- **The Old School:** Designing for maximum, efficient production for short term economic return. Assumes system stability.
- **New School:** Design for maximum adaptability. Assumes complex system behavior

Resilience Thinking

“There is no sustainable ‘optimal’ state of an ecosystem, social system, or the world. It is an illusion, a product of the way we look at and model the world. It is unattainable . . . and yet it is a widely pursued goal.”

-- B. Walker & D. Salt, *Resilience Thinking: Sustaining Ecosystems and People in a Changing World*.

All Systems Follow Recurring Pattern of Change

- Rapid growth
- Conservation/consolidation
- Release/collapse
- Reorganization
 - Walker and Salt

Why “Industrial” Agriculture is Unsustainable

“contemporary resource management . . . attempt(s) to maximize one or a few desirable systems components at the expense of other species and systems functions---think agricultural or forestry monoculture . . . While apparently stable (it) creates systems that (are) ...in pre-collapse mode”

-- William Rees, Thinking “Resilience”

Opportunities

“Each iteration of the cycle provides opportunities for innovation” -- Rees

“Sustainable systems” feature:

- humanly manageable scale
- steady state economy
- feature diversity and redundancy
- cooperation instead of domination
- favor regional self-reliance
- closed nutrient cycles

For more information

- Ag of the Middle as one new business model:
- Thomas Lyson, G.W. Stevenson and Rick Welsh (eds.) 2008. *Food and the Mid-Level Farm: Renewing an Agriculture of the Middle*. MIT Press.

Questions?

Frederick Kirschenmann

leopold1@iastate.edu