



POTHOLES IN THE ROAD TO SUCCESS

It is an early morning in late March and I am pretending to read a newspaper while sitting in a small coffee shop in rural eastern Washington. My state of consciousness is not focused on my newspaper. Instead, I am listening intently to the conversation of several local residents seated at their favorite corner table. I don't mean to be impolite, but I generally travel alone and I discovered many years ago that the morning chatter from such coffee shop corner tables provide: (1) a small sense of traveling companionship, (2) a modest level of morning entertainment, (3) a window through which to observe the microcosm of life in small rural commentaries, and (4) a rapid update on current affairs, local politics, and area economics. Such overheard conversations have also proven to be a valuable source of gossip, rancor, and some really awful jokes.

The conversation this particular morning focused on "potholes". As the locals describe it, this is the time of the year when, "the frost line rises to the surface," and the "bottom drops out of the county roads." While I have never personally viewed a frost line rising or a bottom dropping out from under a road, I have no real reason to question the scientific validity of their claims. After all, most of those seated around the corner table have lived in this region all their lives and I am a stranger just passing through. Anyway, this particular cluster of "highway engineers" is convinced that potholes result from rising frost lines and dropping bottoms. Roads, which were brick hard, last fall and frozen solid most of the winter, now exhibit an almost spongy appearance and the resultant potholes challenge even the most conservative driver.

As I drove away from the coffee shop and out of this small rural community, the potholes discussion remained in my mind. Just like county roads, rural based agribusiness firms must also confront and maneuver around potholes in their road to success. Firms which appeared rock solid last fall may discover this spring that their accounts receivable have risen like the frost line and the bottom has dropped out from under their monthly cash flows. Agribusiness firms have always been susceptible to seasonal volatility in sales and country roads have always been exposed to seasonal alterations in climate.

We're already aware that the road to success for most newly created businesses is marked by the gravestones of its many victims. Only about 10% of new businesses survive long enough to reach maturity. Firms that have matured and succeeded where other's failed often display a natural "pride" in their accomplishment. The continued drive and enthusiasm of management within these surviving companies is gradually transformed into a false sense of invulnerability. For some agribusiness firms, this state of maturation is evidenced by a supercilious attitude towards potential errors and future difficulties. Their attitude becomes, "It can't happen to us because we're somehow different and smarter than all those who have failed."

As agribusiness firms mature, they gravitate almost irresistibly, toward those very deficiencies, or errors, which earlier contributed to the demise of their contemporaries. Such deficiencies, errors or problems are very much like county road potholes; they reappear each spring no matter how solid the surface might have been several months before. This paper reviews

those errors in the hope that management, through insight and vigilance, can avoid those persistent and reoccurring potholes in the road to success.

Delegate by Results, Not by Activity

The agribusiness industry is characterized by a diversity of commodities, functions, products, and services. As a result, management naturally begins to segment the business into a series of interrelated activities. A farm supply retailer has a natural tendency to compartmentalize the total operation into commodity divisions (dry vs. liquid fertilizer), functional divisions (full-service feeds vs. bulk sales and no service), product-related activities (general hardware vs. tires and automotive), and service-based offerings (seed cleaning, custom mixing, home delivered fuels, etc.). Hence, the very first pothole that threatens the successful and well-established agribusiness firm is the persistent tendency to delegate by activity rather than by results. The underlying presumption is that somehow a worthwhile accomplishment will result if you pursue an apparently worthwhile activity.

For example, let's assume that your firm has just completed constructing an aqua-converter and wishes to substantially increase its volume of fertilizer sales this spring. You can't achieve that goal without expanding your program of calling on new customer prospects. Management devises a complex system for a weekly monitoring of all new customer calls. Careful records of each new customer interview are maintained and the company firm's up these reports by requiring follow-up visits each week. The pothole that develops here is based on the presumption that future sales increases will come from that "activity" which monitors new customer contacts. In reality, a growth in sales results from getting new orders. Such results are not the end product of the new customer report activity.

Activity delegations are a common "pothole" in any industry that depends heavily on new

product development. Scientists, engineers, and technicians are charged with the responsibilities to plan for and develop a new product. Design specification tests, laboratory tests, consumer preference tests, etc. are conducted. However, these are mere activities. Until such plans result in a product that can be produced at a reasonable cost and readily sold to customers at a profit, little has been accomplished.

In recent years, the concept of "management by objective" has come into vogue. Managers are led to believe that if they delegate a "requirement to get a result" they will have avoided the activity pothole. The problem is that management often wants to retain the right to evaluate, at the end of the period, whether or not the results were reasonable. Too often, what they really evaluate is not the results obtained, but rather the way in which the job was accomplished. Hence, management once again erroneously focuses on activity, not results.

End-Product Imbalances

Perhaps the second most common pothole into which mature agribusiness firms fall, or toward which they gravitate, is best described as end-product imbalance. In simple terms, this is the overemphasis of one result to the detriment of others. Many farming enterprises typify this imbalance. For example, the farm operator focuses on producing at the lowest possible cost. It's quite understandable that farmers would elect this focus because production costs are the only item over which they have some direct control (yields and sale price seem somewhat beyond their direct control). Because the farm manager does not capture the most opportune price for commodities grown, profits fall short of their maximum attainable level.

I recall an agribusiness firm that handled three basic product lines and discovered one year that while total sales volume grew 20% that year, its profits had actually declined 15%. The manager of this firm was baffled

by these disturbing results. A closer review of that year's operations showed that labor, sales, and product-handling costs had been lumped together and allocated on a per-dollar-of-sales basis. The detailed operational audit revealed that one of three product lines incurred unusually high handling costs relative to its smaller unit sales, resulting in a management decision that under priced that line. The other two lines showed much lower handling costs and fewer, but larger sales. These two products were overpriced, so competition had absorbed all but the larger quantity discount sales. The firm's focus on total sales had created an internal imbalance within the product lines and profits had suffered.

Farm supply firms commonly carry multiple products, not all of which contribute equally to net profit. Salesmen are often compensated on the basis of gross sales generated. This may create an imbalance where salesmen urge management to carry low-profit items just to attract one-stop shoppers and stimulate gross sales. Such an imbalance can be corrected, however, by weighting the sales incentive by the magnitude of margins generated.

As a company grows, it confronts other kinds of imbalance. One firm with multiple production facilities decided to focus on product quality. Each plant was monitored and product quality gradually reached a 99% defect-free status. Of course, production costs also rose significantly. Sales personnel then discovered that competing products were only 95% defect-free and customers had accepted that level of quality as its industry standard. The focus on quality resulted in an imbalance and production costs and prices were now higher than their competitors and sales began to plummet.

Specialization

Our agribusiness industry is now firmly entrenched in an era of specialization. As our industry became more and more dependant on technology, this trend towards specialization was both warranted and

understandable. However, in some cases we may have gone too far and fallen into a pothole. Fertilizer and chemical retailers now promote specialized services to a point where company personnel have lost their diversity of skills. Pesticide applicators with highly specialized skills have lost the desire or ability to perform the more mundane tasks such as product delivery or telephone order taking. Account executives have reached the point of specialization so that phone-in customers are transferred from one desk to another in search of the answer to a rather simple question.

Similar problems impact plant management. Plant managers feel compelled to organize the personnel by function; i.e., have one supervisor for all plant equipment performing like functions. As a result, all products flow through several supervisory divisions for completion. In some cases, it is better to break the specialized format and ask one foreman to be responsible for a single product, including all the functional specialties it passes through in the process of completion. With the foreman in charge of every facet of production on that product, handling is often reduced, costs are trimmed, and scheduling problems are fewer.

Conformation/Uniformity

One of the most obvious potholes into which agribusiness managers fall is that which treats all jobs of the same type as having the same objective during a particular time. It's as if a football coach assigns the same plays to each of his three-team quarterbacks, despite wide variations in the accuracy of the throwing arm of each passer. In the agribusiness industry, this conformation/uniformity error stems directly from an accounting system that requires that records be maintained in a common format for all positions and functions. The advent of computerized record-keeping systems also contributes toward this trend of conformational uniformity.

Return once again to the farm supply sector where a retailer may employ three or more salespersons. Under a uniform or standardized record-keeping system, each of the regions or districts served by a sales person is treated as if they were alike. Anyone experienced in the agribusiness industry knows that this is rarely the case. One region has an abundance of younger growers operating with restricted cash flow. An adjoining region is characterized by older third generation growers requiring little if any field service. A third region is comprised of small acreage part-time farmers who require a full line of services in support of their small operations. Despite the dissimilarities inherent in the three districts, each fieldman is treated alike and their sales performance is judged by a uniformly applied standard. It is obvious that agribusiness management should not impose the same goals on each of the company's sales representatives.

In the first district, sales would be measured against accounts receivable to insure that bad debt losses do not negate the effect of sales increases. In the second no-service district, margins generated should be reviewed in light of the lower service costs incurred. In the third district, management may even wish to reassess whether or not present margins are adequate to cover the district's higher service costs. A generally successful sales program here may actually be detracting from overall farm performance. Uniform measures of performance applied across diverse function, products, services, or clientele may serve only to limit management's effectiveness.

Front Lines Oversight

Top-level agribusiness managers typically receive their company data expressed mostly in total or gross measures. These executives, therefore, make policy decisions that reflect the "overall" well being of the firm. Viewed alone, this practice is not all bad and is often required by the size of the company or the complexity of a particular situation. Its major deficiency (or pothole), however, is that

upper level management finds itself increasingly more separated from the so-called "front lines;" i.e., they grow increasingly distant from the actual point-of-sale.

This frontlines oversight can produce horrendous problems. As a college student, I worked one summer assembling small electrical transformers. Design engineers had designed this new line of product. Assembly specifications had been conveyed to the production floor. Management and top sales personnel had pre-sold this new design to a major foreign buyer. Only then was it discovered that design tolerances were so close that human fingers could not physically assemble the parts without inflicting potential injury to the hands of the production laborers. Management, engineers and top sales personnel had overlooked the front line; i.e., the physical capabilities of those working on the production line.

Staff people in general (engineers, market research people, advertising personnel, sales and budget men/women) should never overlook their company's frontline. All their programs or functions are subservient to the front line (i.e., point-of-sale or the production line) and must first be judged compatible with the frontline if success is to be achieved. Management that falls into the pothole of front line oversight is doomed to push the firm in conflicting directions.

Management's Failure to Consider Process Linkages

A large machine shop that serviced agricultural harvesting equipment was departmentalized so that each department worked on each machine in succession. For example, the machining department worked on castings and plating after which the machines were then conveyed to the reassembly department. Finally, a finishing and paint department handled the machine and was responsible for returning or delivering the reconditioned heavy equipment to the customer. The quality of work performed by the machining department

directly impacted the speed and efficiency of the reassembly department. Because the machining department involved high-technology operations and accounted for a large majority of the total costs incurred by the shop, it was asked to operate within narrowly defined budget constraints imposed by shop management. An external operations audit found that a little extra care taken by machinists could shorten dramatically the time required in reassembly. Management, unfortunately, had not considered this departmental linkage and had provided the machining department with no direct incentive to better serve the reassemblers. The machinists were asked only to operate within the budget allowed and any added costs of reassembly did not reflect directly on the machining department's performance.

Management had clearly fallen into a pothole of failing to recognize basic process linkages. The problem was corrected when management began to hold the machining department responsible, in part, for the cost of down time in the reassembly department. The foremen of both departments were made responsible for errors or cost overruns in either department. Instead of pointing fingers of blame at each other, they now worked together to best solve the problems of each.

Such a linkage in the agribusiness industry is epitomized by the interdependencies between the retail sales and product service functions. A fertilizer sales person quickly learns that his/her job is not finished with the agreed-to sale. The sales person should also try to be present when the product is delivered and applied. Failure to provide the expected service will very likely result in the future loss of a sale to that customer.

Managers must always remain aware of these process linkages and established controls and/or incentives that encourage cooperation among personnel providing both the product and the service.

Summary

Those agribusiness firms that somehow survive and mature must always remain alert. Should they develop even the slightest sense of complacency, they are likely to be victimized by the reoccurring potholes in the road to continued success. Just as county road potholes reappear each spring, let them serve as reminders to agribusiness managers that their own futures face recurrent potholes. This paper addresses several such business potholes and attempts to assist management to avoid them. First, agribusiness managers must continually remind themselves that they must delegate by results, not by activity. Second, they must remain ever vigilant against end-product imbalance. Next, managers need to re-examine their natural biases in support of specialization. Fourth, they should review all job functions to identify problems associated with conformational uniformity. Fifth, top management must avoid the many temptations to overlook their firm's frontline activities. Finally, they should always consider process linkages when assigning of departmental responsibilities.

I wish you well as you travel down the road to success. Just watch out for those potholes and be more careful about who can eavesdrop on your coffee shop conversations!



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