

Facing Uncertainty

Dixie Watts Reaves, Eluned Jones, Gordon Groover, and Rick Peterson

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The Role of Uncertainty

Over the past few years, tobacco producers have faced uncertainty on many fronts. Some of the uncertainty has been market driven, with declining domestic consumer demand and increased global competition. Legislative action directed at the consumer and retail end of the industry supply chain has had significant impacts on the tobacco producer.

Examples include the proposed increases in tobacco taxes to curb tobacco consumption and to fund health-care costs and the rulings on nicotine being regulated as a drug. Health concerns, which first came to the forefront with the 1963 Surgeon General's report, continue to grow and have led to individual, class-action, and state lawsuits against the industry. The national tobacco settlement of 1998 added yet another level of uncertainty to the industry.

Many of these recent actions have been targeted at the retail level of the tobacco industry, and producers have usually not been involved in discussions and debates on pending actions and legislation. Producers, understandably, feel a sense of loss of control over their own destiny. Driven by both the direct and indirect impacts on the industry, flue-cured tobacco quotas (the right to produce tobacco) were cut 18 percent in December 1998. The cut would have been larger if not for last-minute buy-outs of stocks by manufacturers at discounted prices. This cut, coming on the heels of a 17 percent cut in December 1997, will leave producers facing the lowest level of production since the government began keeping records in 1938.

At the producer level, possible responses to change across four types of producers can be envisioned.¹ The first group of producers, because of their age, skills, investments, and likes and dislikes, will continue to produce tobacco, even as the tobacco industry continues to face change and uncertainty. These individuals have a need for advanced production and

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marketing technology so that they can compete in the global marketplace. Regardless of what happens in the industry, all growers will feel continued pressure to adopt new technology to decrease production costs. In many areas, this pressure will lead to farm numbers declining and average farm sizes increasing as farmers take advantage of the economies of size by spreading the fixed costs over larger levels of output. This group of producers will have two primary needs: research dollars in support of developing new and better technology and access to capital to invest in new technologies.

The second group includes those farmers who will remain in agriculture, but will diversify their farm operations. Their interests may be in either supplemental or alternative enterprises to tobacco. To support the needs of this segment, information is needed on how to produce and market different crops, livestock commodities, or both, as well as guidance on which commodities are best suited for specific locations. Research funding is needed to examine potential enterprises that have not yet been identified as competitive and profitable in the regional marketplace. Continued support for Virginia Cooperative Extension is essential for the dissemination of information generated through research.

A third group of producers will elect to undertake either on-farm or off-farm entrepreneurial activities. These activities will require access to capital and credit. As start-up small business entrepreneurs, they may not be able to compete effectively in existing capital markets. Consideration must be given to the availability of credit to this group. Related REAP research indicates that, while the Commonwealth has taken steps to improve access to credit in rural communities, access is still a major problem and more aggressive state-level programs would appear to be in order.²

A final group of producers, or someone in their families, will choose to seek off-farm employment. High quality jobs must be available, indicating the importance of state-level economic development programs for rural localities. Furthermore, since many producers have no formal training outside tobacco production, workforce enhancement and skill development will likely be needed. Opportunities may exist within the community college framework or with existing workforce enhancement programs to provide these services to meet the need of these new clients, but resources will be needed.

The Tobacco Settlement

In addition to legislation, lawsuits, and taxes, pressure exists at many levels to reduce government support for tobacco. Federal legislation initiated "The Tobacco Program" more than 60 years ago. The program ensures farm-level price and supply stability through a combination of acreage allotments and marketing quotas. With large, back-to-back quota cuts (17 percent for the 1998 growing season and 18 percent for 1999), growers are very concerned over the future of the program. The 1999 quota cut will lead to substantial declines in tobacco revenues. Some have praised the national tobacco settlement as bringing some stability to what has recently become a very unstable industry. However, many legal battles and lawsuits are ongoing. President Clinton revealed during his State of the Union Address that the federal government would pursue a lawsuit against tobacco manufacturers. Congress may try to pass some form of tobacco legislation this year. And numerous states will spend many of their settlement dollars on antismoking campaigns and programs to reduce youths' access to tobacco. Both programs will further reduce cigarette consumption and decrease demand for tobacco at the grower level.

The National Tobacco Settlement requires tobacco manufacturers to pay \$206 billion in compensation to states for health care costs allegedly arising from the use of tobacco products. In exchange for these Phase I payments, tobacco companies will receive protection against future damage claims from states. Immediately following the settlement announcement, manufacturers raised cigarette prices an average of \$0.45 per pack, an increase of some 20 percent. Cigarette consumption is expected to decline 8 to 10 percent as a result of the price increases. Antismoking efforts, also a part of the settlement, are expected to reduce consumption further. Obviously, the settlement will impact tobacco-producing farm families and the communities in which they live.

Lawmakers in most states have proposed legislation that would earmark a portion of their settlement dollars for tobacco producers. Virginia has been a leader in this area with 1999 legislation that identifies 50 percent of Phase I funds for producers and their communities, 10 percent for health organizations to support antismoking campaigns and to oppose youths' access, and 40 percent to be used at the discretion of the governor, legislators, or both. The potential for obtaining a portion of the settlement dollars and the timing of delivery of those dollars adds an additional level of complexity to the strategic decision-making that producers will face.

² See Kruja, Zana, Karen Mundy, and Wayne Purcell. *Is Access to Credit Limiting Diversification and Economic Development in Rural Virginia?* REAP Policy Paper No. 9, Va. Coop. Ext. No. 448-309/REAPP009. Oct. 1998.

Phase II funds the \$5.15 billion compensation to producers for lost incomes due to quota cuts. It will provide about \$30 million per year to Virginia, an average around \$4,000 per farm per year over 12 years, with actual amounts for each farm likely to be tied to historic production.

Over a three-year period (1994 through 1996), a coalition from Virginia Tech and the University of Virginia, working with a grant from the Robert Wood Johnson Foundation, conducted a "Tobacco Communities Project," which involved a series of roundtable discussions focused on how families dependent on the tobacco industry for their income could plan for upcoming changes. These families fall into several socioeconomic groups:

- tobacco producers, mostly rural-dwelling households located throughout the region;
- labor hired from outside the region;
- tobacco stemming and re-drying factory workers, mostly African-Americans residing in proximity to Danville; and
- a less well-defined group of retired producers and owners of tobacco quotas residing in the region and no longer producing tobacco, but renting their quota to other producers.

Without public policy-based intervention, the uncertainty faced by growers and their communities will continue with little chance of stability. To help tobacco producers cope with the uncertainty, faculty from the Department of Agricultural and Applied Economics created *Managing for Success*. As the nature of the problem became clearer to the original committee, they expanded the effort to include specialists from the College of Human Resources and Education and the Southern Piedmont Agricultural Research and Education Center, extension agents from tobacco producing counties, and farm management agents. To address the planning and decision-making needs of Virginia's tobacco farm families, this multidisciplinary committee designed materials for an educational program, which they will support with training and teaching materials.

Assisting Tobacco-Farm Families

Managing for Success, the result of the committee's work, is designed to help producers plan in the face of the uncertainty and was first tested in February 1999. The program, specifically addressing strategic planning and decision making in an uncertain environment, assists farm families in achieving their farm and family goals and objectives. It is designed to help people help themselves to be better business managers through understanding their motivating values, examining what drives their desire to work the land, and establishing a framework of management concepts and

skills to strengthen their chances of success. Peter Drucker asserts that when people engage in long range planning, their decisions are concerned with the future, not the present.

Goals of the *Managing for Success* program are to teach farm families how to apply

- strategic planning methods to their businesses and personal lives,
- creative problem solving skills to current situations,
- communication skills to intrafamily and intergenerational decision making, and
- business and financial management skills in evaluating alternatives.

Managing for Success supports existing Virginia Cooperative Extension activities that target tobacco producers' short-run planning of production and financial management decisions. The Virginia *Managing for Success* is based on similar successful educational programs being conducted in other states (New York, Michigan, North Carolina, South Carolina, and Ohio), in response to the restructuring needs of their dairy industries. While it was designed with tobacco producers in mind, *Managing for Success* is appropriate for any small business or family needing to plan for the future.

Unlike other currently used programs which focus on business management, record keeping, determining profitability, intergenerational transfer, and the like, *Managing for Success* begins by having the participants reach a shared agreement on where they would like to see their business in five to ten years. This shared understanding of the future direction of the business helps families focus on the decisions affecting the long-run profitability of the family business. Equally important, the discussions strengthen the relationships among family members and business partners as they struggle to meet the challenges of change and uncertainty.

A pilot workshop took 12 tobacco producers and extension personnel through an exercise to identify critical issues for tobacco-farm businesses and families. The participants identified the following problems that farm businesses face:

- risk and uncertainty
- loss of control over the future
- opposition to options
- potential options and the associated emotional issues of change
- lost opportunities for those wanting to produce
- nonagricultural options and the adjustments required
- reduced income
- farm labor supply and wages
- retirement planning

- health care
- impacts on rural communities and loss of political influence

The current and impending market environment for tobacco implies that farm families will need to reevaluate, individually and collectively, what is important for business and personal satisfaction.

Dealing with Uncertainty

Understanding how individuals interact within the family business is important for healthy family relationships as well as successful businesses. However, when the family and business are under stress from external forces, understanding how each individual will react and adjust to change is paramount to identifying possible alternative solutions to the stress and, hopefully, to successful outcomes. *Managing for Success* recognizes that creating a family business mission statement and the associated goals requires communicating and sharing each individual's perspective. Several tools are recognized for ascertaining individual decision-making approaches and personality types. The Myers-Briggs Type Indicator was used as the foundation for providing participants with an understanding of how different personality traits can aid or hinder communication, decision-making, and consensus building. For example, Myers-Briggs identifies four major preferences for energy (introversion versus extraversion), information gathering (sensing and intuition), decision making (thinking and feeling), and life-style (judging and perceiving) (Hirsh, p. 2).

Participants are asked to reflect on the vision they have for their families and their businesses, first at an individual level and then collectively as family members compare their visions. Before coming to a consensus, participants need to realize that not everyone will necessarily be willing to buy into the business 100 percent because each person has a different set of personal goals. For example, a typical farm family of four (husband, wife, and two teenage children) may have competing personal and career goals. One spouse and one child want the family farm to continue; the other spouse and child have professional career goals and interests that limit the time they are likely to spend in farm business activities. Compromises will need to be made, and who makes those compromises may affect the outcome.

Until all members of the family can agree on common goals that incorporate their business and personal lives, decisions regarding the farm business will be difficult. Family members discuss their differences and arrive at a consensus vision for the family. Given a common vision, participants are guided in the creation of a mission statement for their family business. They then develop goals to accomplish that mission.

Next, they identify barriers that might prevent their goals from being reached and tactical plans that will help put their goals into action. Developing a team of experts to assist in implementing plans and overcoming barriers is recommended. This team might include a lawyer, banker, accountant, financial planner, extension agent, or some combination of these experts. The barriers participants identify will be used to develop future workshops on an as-needed basis. New paradigms will have to emerge as the entire team deals with an operating environment that is significantly different from that of the past.

The program focuses on taking participants through the concepts of paradigm change. Paradigms represent the entire collection of beliefs, values, techniques, goals, and so forth that are shared by the members of a family or, at a larger level, an entire community (Kuhn, 1970). Paradigms help address normal day-to-day problems or issues. However, they can also limit one's effectiveness in addressing problems whose solutions need to be generated from outside the preconceived system. Fifty years ago, for example, flue cured tobacco was harvested by hand, two or three leaves from a plant at a time during a weekly "priming" or harvesting. These leaves were hand tied and hung on 600 to 700 sticks per barn to dry. No one would have thought of using bulk bins and placing the leaves in them loose to dry. No one would have thought of using a machine to make harvesting easier. The paradigm changed, producers adapted and adopted, and today bulk barns for drying and mechanical harvesting of flue cured tobacco are common. Today, the paradigm for production and marketing again faces the need to change if producer are to adjust and survive.

The uncertainty facing tobacco producers is expected to continue as adjustments to the tobacco settlement are made and additional pressures are placed on the industry. *Managing for Success* is an attempt to assist producers in adapting to anticipated changes. Unlike crisis management programs that were implemented during the farm crisis of the 1980's, *Managing for Success* is designed to help producers adapt to change before the farm business is placed in a crisis situation. While change is often discomfoting, it does not have to lead to a crisis. *Managing for Success* is intended to assist with visioning and goal setting for long-term sustainability of the business and family unit. Visioning and goal setting can be critical to the long-term viability of any small business.

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Wise, William, and Dixie W. Reaves. *Tobacco's Important Role in the Economy of Southside Virginia*. Va. Coop. Ext. Pub. 448-228/REAP 030. 1997

Notices

****HOW TO REACH US:** REAP, Department of Agricultural and Applied Economics (0401), Virginia Tech, Blacksburg, VA 24061; telephone: (540) 231-9443; Fax: (540) 231-7417; email: reap01@vt.edu; web site: <http://www.reap.vt.edu/reap/>

****Please** let us know if your address changes or if you know of anyone who would like to be added to our mailing list.

****New Publications:** *How to Sell Fresh Produce to Supermarket Chains* by Bobby Beamer describes the structure of supermarket chains and the constraints to producers being able to contract with supermarkets.

Corn and Soybean Consumption and Production in Virginia by Beth Ann Huffman and David Kenyon describes the current relationship between production, which is insufficient to meet the needs of the livestock, dairy, and poultry industries, and the needs of these industries. Policy implications arising from these relationships are important to Virginians.

****Advisory Council meeting:** REAP's public sector Advisory Council will meet July 9, 1999 prior to the annual Animal Industry Day activities at Virginia Tech.

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