U.S Department of Agriculture

Agricultural Outlook Forum 2001

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IMPLICATIONS OF STRUCTURAL CHANGE FOR AGribUSINESS

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Agricultural Outlook Forum 2001

“Implications of Structural Change for Agribusiness”
<table>
<thead>
<tr>
<th><strong>Headquarters:</strong></th>
<th>Kansas City, MO</th>
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<tr>
<td><strong>2000 Sales:</strong></td>
<td>$12.2 billion</td>
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<tr>
<td><strong>Owners:</strong></td>
<td>1,700 local cooperatives 600,000 North American producers and ranchers</td>
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<td><strong>Motto:</strong></td>
<td>Proud to be Farmer Owned®</td>
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<td><strong>Assets:</strong></td>
<td>$3.3 billion asset base</td>
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<td><strong>Mission:</strong></td>
<td>To be a global, consumer-driven, producer-owned, financially successful “farm-to-table” cooperative system.</td>
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Today’s Topic..........
Why did this event make such a difference?

- Privatization -- the state buyers began to disappear
- “Consumer power” began to be exerted
- We had to start “marketing” our grains rather than just selling them
Marketing?

A business function that:

✧ Identifies unfulfilled needs and wants
✧ Defines scope and magnitude of needs and wants
✧ Establishes a company’s targets
✧ Decides the appropriate products, services, and programs

✧ Causes everyone in the organization to “think about and serve the customer.”
Who is the Customer?
Customer-Driven?

Ability to identify what the consumer wants (and is willing to pay for), then design the product and/or service to fulfill the want.
Generic Grains

- Marketed Grains
- Segregated
- IP
- Contract
- Special Use

Commodity Grains?
Past Grain Paradigm

Producer
Production

Market

Processor

Consumer
Present/Future Grain Paradigm

Market:
- What I Want
- When
- How

Physical Product

Consumer
Desires

Producer
Production

Information
Yesterday our Customers looked like this.....

U.S. Grain Industry

State Grain Buying Entity

Consumer

Consumer

Consumer

Consumer

Consumer

Consumer

Consumer
Today our Customers look like this.....

U.S. Grain Industry

Consumer
Consumer
Consumer
Consumer
Consumer
Consumer
Consumer
Consumer
Buying Patterns Have Changed…

- U.S.D.A. Specifications -- a guideline
- Competitive year round supply
- Performance
- Will the products from your grain meet my customers’ needs?
- Drive for consistency
- Technical support
- Support services
- Facilitate Financing

Surround the Customer with the things that enable them to succeed!
Consumer Driven

- Barely 1/2 of food purchases are from the grocery store
- 5 Companies = 42% of retail food sales
- 3 Fast Food Sandwich Chains = 61% market share
- 3 Pizza Chains control 84% of the market

What is the power of a brand?
New Generation Food Production System

A system that can verify, **TO THE CONSUMER**, that certain procedures and safeguards were followed in the production, processing and delivery of a product.
Process Verification

Consumer Preferences
“Safe”
“Healthy”
“Ready-to-Eat”

Wholesale / Retail
Distribution Channels
Category Marketing

Processing / Packaging
Consumer Preferences (e.g. Ready-to-Eat)
Niche Markets (e.g. Residue Free)

Grower / Producer
Specialty Crops
High Value Meat or Fish

Food Origination
Plant Genetics
Animal Genetics

An IP-based Food Production Model

Value Creation, Capture & Sharing by Stakeholders

$$$$$

$ $$$

$ $$$

$ $$$

$ $$$
Genetic Technology
aka: “Biotechnology”

- Emotional
- High Risk
- Feeling of being violated
  - Consumers
  - Producers
  - Grain Handlers
- “Pandora’s Box is Open!”

The opportunities are immense!
The Risk is Significant!
Biotechnology Prediction….

- Acceptance will occur when stakeholders feel they are in a “win-win” situation -- will take time.
- Immense marketing opportunities will develop
- Grain will be handled differently
- Production systems will develop
How it is done today!

(A Fragmented & Redundant Supply Chain)
Independence!
Interdependence!

Commonality:
• People
• Systems
• Processes
• Arbitrage
• Risk Management
• IP Systems
• Transportation
• Market Clout
• Asset Optimization
Manage Cost/Risk

Meet Customer Need

Result = Success!
How will we manage change?

✧ Think and act outside of the “Box”
✧ Manage facts vs emotion
✧ Become engaged
  – Not just the technology companies or regulators
  – Not just producers
  – Not just grain handlers and marketers
  – Not just millers or processors

This is not just an industry of component or smokestack groups but an inter-dependent industry whose focus is food and our customer is the consumer.