

**THE AMERICAN AGRICULTURAL ECONOMICS
ASSOCIATION**

**PRODUCER MARKETING and RISK MANAGEMENT:
FRONTIERS for the 21st CENTURY**

**A Conference Sponsored by the Food and Agricultural
Marketing Policy Section of the American Agricultural
Economics Association**

January 13-14, 2000

**Homewood Suites
International Drive
Orlando, Florida**

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 Slide 1

“The Future of the Internet in Producer Marketing and Risk Management “
A Presentation by Joseph B. Dial
Business Development Director
E-Markets (Logo)
Ames, Iowa

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"The Future of the Internet in Producer Marketing and Risk Management"

A Presentation by Joseph B. Dial
Business Development Director



Ames, IA



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"The Future of the Internet in Producer Marketing and Risk Management"

A Presentation by Joseph B. Dial

Business Development Director

E-Markets (Logo)

Ames, Iowa

Commentary: Since I was introduced as the Business Development Director of E-Markets perhaps I should give you some background on our company before I begin talking about the **Future** of the Internet in Producer Marketing and Risk Management.

Four young men who grew up on farms in the Mid-West started E-Markets, Inc. in the fall of 1996. Today there are over 60 employees. On the business side we have about fifteen specialists with many years of private sector experience in production agriculture and agribusiness, four of them are PhDs. The technical side of E-Markets is handled by a large group of Computer Engineers and Software Programmers. Our President is David

Abbott. Dave was CEO of Purina Mills for several years before Koch Industries purchased it in 1998.

Original funding for E-Markets came from family and friends. The first e BUSINESS solution the company developed kept it in the black for several quarters. However, in order to take advantage of the unlimited opportunities in the food value chain for a dot-com Internet company venture capital was secured from investors on both the east and west coasts.

As a result, E-Markets is rapidly becoming the on-line market space for the food value chain. For producers, consumers and everyone in between, E-Markets is developing a broad based e-commerce platform for agribusiness and food industry buyers and sellers to transact business on the Internet. We believe in the 21st century, producers, processors, distributors, and retailers will form "virtually" integrated alliances to meet consumers' needs in a demand driven food chain.

In order to facilitate the growth of this demand driven food chain, E-Markets continues to build the e-business solutions that will enhance the communication, coordination, and certification of quality as well as logistical efficiency of these alliances. Our goal is to create a win-win situation for the players who participate and can identify their product's added value.

If asked to synthesize all of the above into one sentence it would be as follows:

E-Markets core competency is its unique ability to combine a specialized knowledge of the food value chain with electronic technology and the Internet in a way that results in the invention of new markets, a rapid response to emerging markets, and the dramatic realignment of traditional business practices in established markets.



Slide 3 - E-

Markets core competency is its unique ability to combine a specialized knowledge of the food value chain with electronic technology and the Internet in a way that results in the invention of new markets, a rapid response to emerging markets, and the dramatic realignment of traditional business practices in established markets.

We agree 100 percent with that wise philosopher Yoggi Berra, who once said,

"The Future Ain't What It Used to Be"



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"The Future Ain't What It Used to Be"

Commentary: I believe the Internet is the future of marketing and risk management for producers. However, a survey we did last year indicates many US farmers don't share my enthusiasm for the World Wide Web.

In October of 1999 E-Markets commissioned a survey of Class 1-A farmers located in Iowa, Illinois and Nebraska. We learned that approximately 52 percent of the 600 hundred producers who were interviewed either did not possess a computer with Internet access or did not have a propensity to have one within the next year.

Obviously if the Internet is going to make a difference in how producers market and manage the risk of what they raise, more of them will have to have access to the "net" and be willing to use it. If learning how to use a PC is not what 52 percent of Class 1-A farmers want to do, let's encourage them to try other ways to get on the Internet. Some of the electronic devices that cost less and are more user friendly are the following:



I-opener (www.netpliance.com)



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i-opener
(www.netpliance.com)

Commentary: According to the folks at Netpliance as soon as you turn the I-opener on, you're online. You have "instant access to email and the web, without the hassle of a computer." And you can customize your I-opener with a personalized menu of Internet links perfectly suited to the individual's interests. Price, \$199.00, which will probably be reduced if enough people buy them.

The next photo portrays a device that 202,600 people were using in 1995. By June of 1999, that number had increased to 76.2 million people.

Cell Phone



According to statistics from the Cellular Telecommunications Industry Association, there are 76.2 million cell phone users in America as of June 1999, compared to 203,600 in 1995.



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Cell phone - 1995: 202,600 - - 1999: 76.2 million

Commentary: Today many people in Japan are using a domestically produced cell phone to access the Internet, which of course allows them to read their email, check stock prices and get into any thing else that is available on the web. We have the same type of wireless phone in the US but it is not quite as advanced as the one I just referred to. However, I understand in a few months we will have one that will be equal to or better than the Japanese model.

When that happens it won't be long before one of the regulars at the mid-morning coffee conference at the local Dairy Queen will have one of those new "smart" phones. And when the conversation turns to the price of grain and the weather he will whip out his cell phone, push several keys and tell the "boys" what the latest local grain cash prices are. And then he will throw in futures quotes and a current weather forecast for good measure.

With the "smart phone" he can access whatever data he needs, whether he is in his truck or on a tractor, from his personalized E-Markets Farm Folio electronic folder. After seeing his Dairy Queen trick and hearing about the decision-making tools he can pull up at any time I wonder how long it will be before his neighbors get the message?



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Photo of a PDA

Another electronic device that allows one to access the Internet is a PDA (personal digital assistant). Palm Pilot is probably the best known brand among the several vendors who offer the PDAs. The degree of Internet accessibility varies from one brand to another.

The products I have just described provide farmers with an alternative to the PC. Now producers can access the Internet for less initial investment and a minimum amount of time in learning how to use the World Wide Web. Add these advantages to the fact that Microsoft has invested \$8 Billion dollars in the last 13 months to help build a faster communication infrastructure and we should see an increase in farmers' use of the Internet.

Commentary: As you know I am not a "futurist" nor am I clairvoyant, so I'm not going to theorize about what will happen concerning the "Future of the Internet in Producer Marketing and Risk Management." Rather I prefer to show you something actually in use today, a tangible touchstone to clarify the direction I think producer marketing and risk management are headed over the next 12 to 18 months. Keep in mind these examples are a work in progress. For dot com companies change is a constant.

What I am going to show you next may look as strange to you -

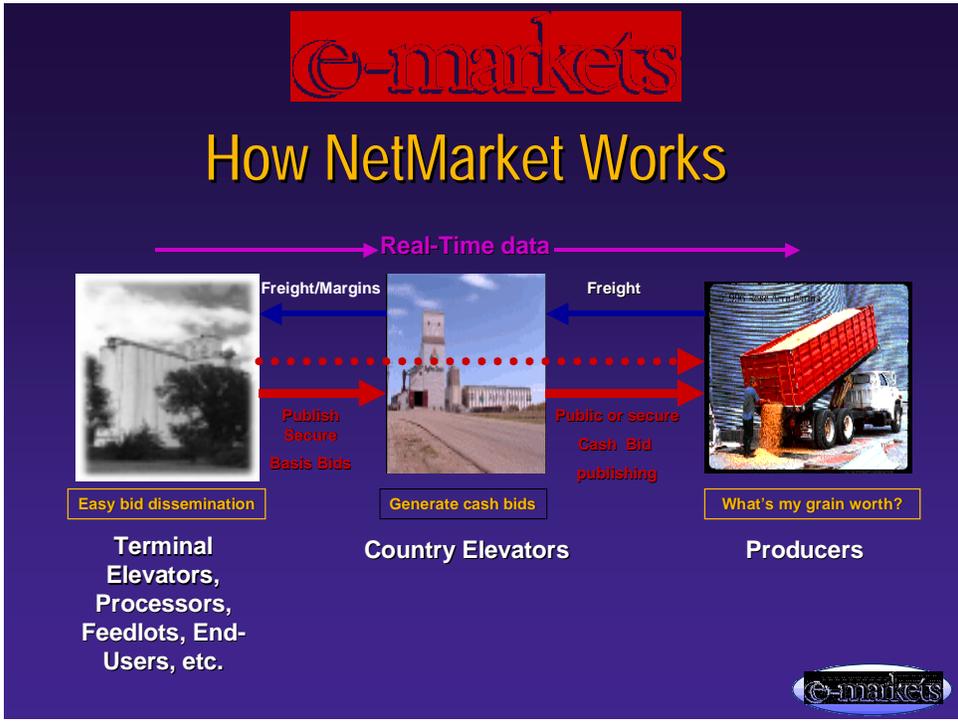
Ford in the Motorized Carriage



Slide 8 - as

this horseless carriage did to folk's back in 1896. But like Henry Ford we know where we are going and are determined to get there.

Commentary: The first tangible touchstone is a web-based e COMMERCE automated grain bid system. We call it NetMarket.



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How Net Market Works

Netmarket View Bidscreen - product - free - Netpage

Back Forward Reload Home Search Netpage Print Security

Location: https://netmarket.eval.ets.com/

E-Markets E-M Network E-M Login Dev Browse email Demo Barney News Lookup Articles Log Files

NetMarket™ Help Main Menu Menu Logout

Com Delivered In Update Return

View Bid Worksheet

Product: Corn
Bid Type: Delivered In
Date: 08/12/1999, Thursday, 11:04:48 pm CDT

Select Companies Delivery Period Match Published Bids to Delivery Period

Delivery Period	AUG 12-31	SEP 1-30	OCT 1-31	NOV 1-30	DEC 1-31	JAN 1-31	FEB 1-29	MAR 1-31	APR 1-30	MAY 1-31	JUN 1-30	JUL 1-31
Close Month	SEP99	SEP99	DEC99	DEC99	DEC99	MAR00	MAR00	MAR00	MAY00	MAY00	JUL00	JUL00
Close	2.102	2.102	2.232	2.232	2.232	2.336	2.336	2.336	2.300	2.300	2.410	2.410
Cash Bids												
"New Cooperative, Inc. - Fort Dodge"	No Bid Inf.											
Buckeye Coop	No Bid Inf.											
West Central Co-Op Of Scranton - Scranton	No Bid Inf.											
West Central Cooperatives - Ralston	Public Inf.	1.532	1.552	1.632	n/b	1.722	1.816	n/b	1.916	n/b	n/b	1.960

Document Done

Slide 10

View Bid Worksheet

Publish Bids
 Product: Corn
 Bid Type: Delivered In
 Time: 09/03/1999 @ 09:19:36 pm CDT

Publish Bid Worksheet

Select Company/Product/Bid Type View/Download Update Bid Setup Cancel

Bid Comment Delete Comments New Row Check Bid Add Protection

Start Time: Current Time Bid Time: 09/11/1999 @ 03:00:00 pm CDT

Delivery Period		SEP 3-7	SEP 8-14	SEP 15-21	SEP 22-30	OCT 1-31	NOV 1-14	NOV 15-30	DE
Option Month		<input type="text" value="C09"/>							
Grower	Public Comment	<input type="text" value=".35"/>	<input type="text" value=".34"/>	<input type="text"/>					
Grain Dealer	Send To Comment	<input type="text" value="-0.33"/>	<input type="text" value="-0.32"/>	<input type="text" value="-0.33"/>	<input type="text" value="-0.32"/>	<input type="text" value="-0.31"/>	<input type="text" value="-0.30"/>	<input type="text" value="-0.29"/>	<input type="text" value="-0.28"/>
Preferred 1	Send To Comment	<input type="text" value=".32"/>	<input type="text" value=".31"/>	<input type="text"/>					
Delivery Period		DEC 15-31	JAN 1-31	FEB 1-29	MAR 1-31	APR 1-30	MAY 1-31	JUN 1-30	JUL
Option Month		<input type="text" value="C09"/>							
Grower		<input type="text"/>							
Grain Dealer		<input type="text" value="-0.27"/>	<input type="text" value="-0.27"/>	<input type="text" value="-0.25"/>	<input type="text" value="-0.25"/>	<input type="text" value="-0.25"/>	<input type="text" value="-0.25"/>	<input type="text" value="-0.24"/>	<input type="text" value="-0.23"/>
Preferred 1		<input type="text"/>							

Slide 11

Publish Bid Worksheet

Haveman Grain Company, Inc., Murray, NE Corn Delivered In Update Setup Return Minimized Page

Company: Haveman Grain Company, Inc., Murray, NE
 View Bids
 Product: Corn
 Bid Type: Delivered In
 Date: 09/03/1999, Friday, 09:14:44 pm CDT

View Bid Worksheet

Delivery Areas Delivery Period Option Months Match Published Bids to Delivery Period Show Best Bids Only

NM-4022 : Margin values missing for some bids. These values are NOT included in the best bid calculations. Missing margins are **light**

Delivery Period	SEP 3-7	SEP 8-14	SEP 15-21	SEP 22-30	OCT 1-31	NOV 1-14	NOV 15-30	DEC 1-14	DEC 15-31	JAN 1-31	FEB 1-29	MAR 1-31	APR 1-30	MAY 1-31	JUN 1-30	JUL
Close Month	SEP99	SEP99	SEP99	SEP99	DEC99	DEC99	DEC99	DEC99	DEC99	MAR00	MAR00	MAR00	MAY00	MAY00	JUN00	JUL
Close	2.086	2.086	2.086	2.086	2.220	2.220	2.220	2.220	2.220	2.330	2.330	2.330	2.384	2.384	2.438	2.438
Best Bids																
OGC-Lincoln	Friend Info	-0.330	-0.350	-0.350	-0.330	-0.330	-0.330	-0.320	-0.320	-0.320	-0.310	-0.300	-0.300	-0.300	-0.300	-0.290
Peary Grain Company-Kearney	Friend Info	-0.320	-0.320	-0.330	-0.330	-0.330	-0.330	-0.320	-0.320	-0.310	-0.310	-0.290	-0.290	-0.290	-0.290	-0.280
Peary-Council Bluffs	Friend Info	-0.330	-0.320	-0.330	-0.310	-0.300	-0.250	-0.250	-0.240	-0.240	-0.220	-0.220	-0.220	-0.180	-0.180	-0.170
Peary-Onaha	Friend Info	-0.330	-0.320	-0.330	-0.320	-0.310	-0.300	-0.280	-0.280	-0.270	-0.270	-0.250	-0.250	-0.250	-0.250	-0.240
Scollar Co.	Friend Info	-0.340	-0.330	-0.340	-0.340	-0.320	-0.320	-0.310	-0.310	-0.290	-0.290	-0.290	-0.290	-0.290	-0.290	-0.280
Highest Basis Bid		-0.320	-0.320	-0.330	-0.310	-0.300	-0.250	-0.250	-0.240	-0.240	-0.220	-0.220	-0.220	-0.180	-0.180	-0.170

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View Bid Worksheet (Highest Basis Bids)

Cash Bids																
OOC-Lincoln	Found Info.	1.756	1.736	1.736	1.756	1.890	1.890	1.900	1.900	1.900	2.010	2.020	2.030	2.064	2.034	2.126
Peavy Grain Company-Kearney	Found Info.	1.766	1.766	1.756	1.756	1.890	1.890	1.900	1.900	1.910	2.020	2.020	2.040	2.094	2.034	2.126
Peavy-Council Bluffs	Found Info.	1.756	1.766	1.756	1.776	1.920	1.970	1.970	1.980	1.980	2.110	2.110	2.110	2.204	2.204	2.246
Peavy-Omaha	Found Info.	1.756	1.766	1.756	1.766	1.910	1.920	1.940	1.940	1.950	2.060	2.080	2.080	2.134	2.134	2.176
Scotlar Co.	Found Info.	1.746	1.756	1.746	1.746	1.900	1.900	1.910	2.020	2.040	2.040	2.040	2.040	2.104	2.134	2.166
Highest Cash Bids		1.766	1.766	1.756	1.776	1.920	1.970	1.970	2.020	2.040	2.110	2.110	2.110	2.204	2.204	2.246
Best Bids																
Delivered In:																
Peavy- Omaha		1.656	1.666	1.656	1.666	1.800										
Peavy- Council Bluffs							1.840	1.840			1.970	1.970	1.970	2.064	2.064	2.106
Scotlar Co.									1.890	1.910						
Open Months		SEP99	SEP99	SEP99	SEP99	DEC99	DEC99	DEC99	DEC99	MAR00	MAR00	MAR00	MAY00	MAY00	JUL00	
Evaporator Basis		-0.430	-0.420	-0.430	-0.420	-0.420	-0.380	-0.380	-0.330	-0.310	-0.360	-0.360	-0.360	-0.320	-0.320	-0.310

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View Bid Worksheet (continuation of Slide 11)

Commentary: NetMarket is phase one of our plans to build an exchange platform with an open architecture that in 18 months or less will support electronic buy/sell transactions in cash and futures markets for agricultural commodities.

This type of web-based e COMMERCE transactional exchange will become an invaluable sales outlet for some producers and a marketing tool for others. In either case it will give them access to more buyers, will enhance price transparency, increase liquidity, reduce bid/ask spreads, greatly improve the speed and efficiency of order execution, which in turn will reduce the cost of using risk management tools.

Please note I just said this type of seamless exchange will become an invaluable sales outlet for some producers and a marketing tool for others. For the producers who raise generic commodities like number two yellow corn this e COMMERCE exchange will present more opportunities to sell what they raise for a better price than today's traditional cash grain market presently affords.

Before I mention another way for farmers to benefit by marketing on a seamless exchange, allow me to clarify what I mean by marketing:

Marketing is about assessing needs, measuring their extent and intensity and determining whether a profitable opportunity exists. Selling occurs only after a product is manufactured or a service is offered. Marketing continues throughout the product's life, trying to find new customers, improve product appeal and performance, learn from product sales results and manage repeat sales.

(Philip Kotler, Kellogg Graduate School of Management, Northwestern University)



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Marketing is about assessing needs, measuring their extent and intensity and determining whether a profitable opportunity exists. Selling occurs only after a product is manufactured or a service is offered. Marketing continues throughout the product's life, trying to find new customers, improve product appeal and performance, learn from product sales results and manage repeat sales. (Philip Kotler, Kellogg Graduate School of Management, Northwestern University)

For the farmer who wants to market the identity preserved, attribute specific feed or foodstuffs he/she raises, this e COMMERCE site will be the portal to potential customers around the world.

Philip Kotler's marketing mantra is a key element in our quest to dramatically realign the traditional business practices in established agricultural markets.

RISK MANAGEMENT

In the time I have remaining, I want to mention two risk management tools. The first one is Agricultural Trade Options, which I assume you are somewhat familiar with.

Agricultural Trade Options (ATO)

The Commodity Futures Trading Commission (CFTC)
Pilot Program for ATOs

Agricultural Trade Option (ATO) is a contract between two entities that are commercially involved in certain enumerated agricultural commodities.



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For the record, an Agricultural Trade Option (ATO) is a contract between two entities that are commercially involved in certain enumerated agricultural commodities.

Agricultural Trade Options (ATO)

The Commodity Futures Trading Commission (CFTC)
Pilot Program for ATOs

List of entities eligible to enter into an ATO:

- Farmer
- Livestock or poultry feeder
- Elevator
- Processor
- Merchant handling grain.
- Commercial enterprises that sell inputs used in the production of the commodity.
- Banks that routinely finance businesses involved in the production, processing or handling of the commodity.



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The Commodity Futures Trading Commission (CFTC) announced in 1998 that these entities might be a farmer, a livestock or poultry feeder, an elevator, a processor or a merchant handling grain. In October of 1999 the Commission added those commercial enterprises that sell inputs used in the production of the commodity as well as banks that routinely finance businesses involved in the production, processing or handling of the commodity.

An ATO contract gives one party the right, but not the obligation to deliver an agricultural commodity to the counter party. If delivery takes place the buyer pays the seller the strike price that was agreed upon by the parties at the time the option was written. In return for this price guarantee the seller of the commodity paid the buyer a premium when the option was originally entered into. Call it a price insurance policy if you like.

A simple "Walk Away" Agricultural Trade Option can be an attractive alternative to doing nothing or forward contracting. Another advantage of an ATO is that it allows a farmer to execute the option with an elevator, processor or merchant they know and trust; mostly local or nearby business establishments. The ATO can be tailored to fit each grower's individual situation as to quantity and attribute specific quality. It doesn't have to be for a fixed number of bushels like an exchange-traded option.

The expiration date can also be customized to meet each farmer's particular need. In fact the ATO can exceed the present exchange-traded option's one-year time frame. Under certain circumstances the farmer can buy a put and sell a call, thereby building a "fence" around a price range that he/she considers acceptable. This strategy will reduce the premium cost of the transaction.

As you know, in an exchange-traded option the strike price is for a specific dollar amount per bushel/pound. The same is true for an ATO. However, with a revenue assurance type ATO the strike price will be stated in total dollars per farm unit. And remember, this generic "Walk Away" ATO allows a farmer, for example, to legally walk away from the contract and sell his/her commodity to the highest bidder.

A moment ago I mentioned that the strike price could be "tied to a revenue assurance type ATO that would guarantee total dollars per farm unit." Conceptually this approach has potential for input suppliers who offer a

seed/fertilizer/chemical package and want to write an ATO for its customers that will improve their credit worthiness. Likewise, feed companies could write an ATO for hog, beef or dairy operators that would guarantee the producer gross revenue based on a 365-day time frame.

At the present time E-Markets is developing a web-based e BUSINESS solution to digitize the current registration, recordkeeping and reporting process for those entities that want to become ATOMs and write ATOs under the provisions of the CFTC's current ATO Pilot Program. We are also working on turning the above concepts for the use of ATOs into actual risk management tools, which will be available as a part of our e BUSINESS solution.

The second risk management tool that is web-based is **Decision Rule Contracts™** (DRC). DRCs are a new and powerful set of marketing tools designed to help producers market their grain more effectively.

Decision Rule Contracts™

- u DRC's are based on mathematical analysis of daily closing grain futures with pricing decisions determined by the underlying model for each contract.**
- ◆ There are a variety of contract models designed to appeal to different levels of risk aversion.**
- ◆ Within each contract model, several control variables are available to further define and customize the contract's pricing decision.**



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The contracts are based on mathematical analysis of daily closing grain futures with pricing decisions determined by the underlying model for each contract. There are a variety of contract models designed to appeal to different levels of risk aversion. Within each contract model, several control variables are available to further define and customize the contract's pricing decision.

Decision Rule Contracts™

- u Include both forwards and offer contracts.
- ◆ DRC forward contracts price all contracted bushels.
- ◆ DRC offer contracts price *up to the contracted bushels* depending upon market volatility and pricing opportunity.



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Decision Rule Contracts™ include both forwards and offer contracts. DRC forward contracts price all contracted bushels. DRC offer contracts price *up to the contracted bushels* depending upon market volatility and pricing opportunity.

You will hear more about DRCs when Frank Beurskens makes his presentation first thing tomorrow morning.

CONCLUSION

"Elecular" Revolution

The awesome technological power that mankind has at its disposal upon combining the unlimited potential of electronic technology and molecular science.



As economists you understand the profound affect the Industrial Revolution had on the world economy and mankind. The sequel to the Industrial Revolution is what I call the "Elecular" Revolution. You won't find the word "elecular" in the dictionary. It is a term I coined to refer to the awesome technological power that mankind has at its disposal upon combining the unlimited potential of electronic technology and molecular science.

The speed at which the Elecular Revolution will occur and the depth to which it will affect the human race will be magnified beyond anything we have experienced before. I believe the Internet will be central to the velocity at which change will take place and the scalability of its impact on everyone on this planet.

And I also believe the Internet is the future for those producers who want to have a successful marketing and risk management program.