How Will Agricultural E-Markets Evolve?

Royce Nicolaisen, CEO
AgEx.com
February 22, 2001
“I’m all for progress. It’s change I can’t stand.”

Mark Twain
“Our e-commerce strategy is to avoid it as long as possible.”

--Anonymous U.S. Ag company
AgEx.com provides e-procurement solutions to top U.S. food and beverage manufacturing companies. Our goal is to enable our clients to leverage a more efficient purchasing process so that they ultimately increase their bottom line and maximize shareholder value.
E-commerce in Perspective

- E-commerce is not new
  - UPC codes
  - Electronic Data Interchange (EDI)
  - Vendor Managed Inventories (VMI)
- Has already dramatically changed the food distribution landscape
E-commerce In Perspective

• UPC codes alone altered the power balance
  – Retailers now control market information

• Wal-Mart's exceptional growth can be traced to aggressive use of technology
  – Pioneered vendor managed inventory concept
Food retailers’ fear of Wal-Mart has triggered the most important trend in the food distribution business today – rapid consolidation of retailers and manufacturers.

This consolidation is already having a severe impact on primary food producers.
“Since 1996, large retailers have purchased almost 3,500 supermarkets, representing annual grocery store sales of more than $67 billion.”

--Agricultural Outlook, Aug 2000
Consolidation Trends in U.S. Retailer Consolidation

% of U.S. retail sales

10% 15% 20% 25% 30% 35% 40% 45% 50%

Top 4: 15.9% 28.8%
Top 8: 24.9% 39.4%
Top 20: 37.0% 48.2%

1992 1998

Trends in U.S. Retailer Consolidation

Consolidation

AGEX.com

AGRICULTURAL EXCHANGES ONLINE
## Retail Consolidation

### Top 5 Grocery Consolidations in 1998

<table>
<thead>
<tr>
<th>Acquiring Co. (Sales)</th>
<th>Co. Acquired (Sales)</th>
<th>Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kroger ($28.2 billion)</td>
<td>Fred Meyer ($14.9 billion)</td>
<td>$43.1 billion</td>
</tr>
<tr>
<td>Albertson's ($16.0)</td>
<td>American Stores ($19.7)</td>
<td>$36.3 billion</td>
</tr>
<tr>
<td></td>
<td>Buttrey ($0.4)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sessells ($0.2)</td>
<td></td>
</tr>
<tr>
<td>Safeway ($23.7)</td>
<td>Carr Gottstein ($0.5)</td>
<td>$24.2 billion</td>
</tr>
</tbody>
</table>
## Recent Mergers & Acquisitions in Food Industry (1998-2000)

<table>
<thead>
<tr>
<th>ACQUIRING COMPANY ($ Sales)</th>
<th>COMPANY ACQUIRED ($ Sales)</th>
<th>TOTAL SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unilever ($43.6 billion)</td>
<td>Bestfoods ($8.6 billion)</td>
<td>$52.2 billion</td>
</tr>
<tr>
<td>Philip Morris ($27.5)</td>
<td>Nabisco ($8.3)</td>
<td>$35.8</td>
</tr>
<tr>
<td>General Mills ($6.7)</td>
<td>Pillsbury ($5.9)</td>
<td>$12.6</td>
</tr>
<tr>
<td>Kellogg ($7.0)</td>
<td>Keebler ($2.67)</td>
<td>$9.7</td>
</tr>
</tbody>
</table>
Impact on Supply Side

• While retailers and grocery manufacturers consolidate, the supply side remains fragmented
  – No processing cost advantages to consolidating
  – Wide geographic dispersion
  – Enterprises are mostly family owned or co-ops

• Sellers continue to lose negotiating leverage
Price Trends

U.S. Wholesale vs. Retail Refined Sugar Prices

Sources: Bureau of Labor Statistics & Milling & Baking News
Price Trends

Red Delicious Apple Retail vs. Grower Price

Sources: USDA, NASS, U.S. Dept of Labor
Price Trends

Fresh Tomato Retail vs. Grower Price

Sources: USDA, NASS, U.S. Dept of Labor
Share Price – Imperial Sugar

IHK Daily

Volume

©BigCharts.com

11/24/00
Share Price – Safeway
Supplier Trends

Major Suppliers Versus S&P 500 For Last 5 Years

[Graph showing trends of Major Suppliers compared to S&P 500 over the last 5 years]
Retailer Trends

Major Retailers Versus S&P 500 For Last 5 Years
Going Forward

• The Internet is changing the nature of E-Commerce
• Prior E-Commerce was of the one-to-one type
• The Internet allows for Collaborative E-Commerce
  – Electronic marketplaces
  – Automated supply chains
Collaborative E-Commerce

Major buyers are already organizing collaborative marketplaces

• Transora
  – Formed by 50 major grocery manufacturers, such as P&G, Kraft, and General Mills
  – $250 million invested

• Worldwide Retail Exchange
  – Includes Safeway, Ahold, Albertson’s

• Global Net Exchange
  – Includes Kroger, Sears, Carrefour
Mega Market Implications

• Buyers intend to aggregate demand to conduct even larger purchases

• Buyers own the data of transactions flowing through the marketplace and choose not to share with the sellers

• Sellers will need to invest in technology to communicate with these marketplaces
Supplier Options

• If they do nothing, primary food suppliers will be further squeezed on prices and at the same time need to invest in IT support

• An option is to form supplier sponsored collaborative marketplaces that will link to the buyer sponsored marketplaces
Supplier Marketplace Benefits

• Participants can own the data flowing through the market
  – Better data will allow for better decision making and help “level the playing field”

• One linkage to the supplier market will allow linkages to all other markets
  – Reduced IT costs
Supplier Marketplace Benefits

• Can collaborate among members
  – Trade raw material overages and shortages
  – Trade plant capacity
  – Participate in combined offers

• Can better obtain and disseminate crop estimates and market demand conditions
  – Help reduce over-planting and reckless pricing
Supplier Marketplace Benefits

- Can conduct aggregated purchases of needed inputs such as packaging materials, energy, and transportation.
- Can utilize marketplace-owned, web hosted business software applications thereby adding efficiency at low cost.
AgEx.com’s Role

- Organizers of marketplaces designed to assist the primary food manufacturers
  - No other e-commerce company has adopted this approach
  - Electronic procurement is about value, rather than cost
  - Allows for more participation by suppliers
  - Offers price transparency
  - Shortens the purchasing cycle
• In regular contact with the major buying groups
• Already active in the nut, dried fruit, rice, pulse, sugar, tomato product, and juice industries
• Employ latest technology to support supplier needs