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MARKETING STRATEGIES FOR THE NEW MILLENNIUM
Transcription

Moderator: Ken Root, Host, Agri-talk Radio

Panelists:
Sonja Hillgren, Editor, Farm Journal

Lynn Rundle, General Manager, 21st Century Grain Processing, and CEO, 21st Century Alliance

Thomas Joseph Trantham, Jr., Trantham's 12 Aprils Dairy

Gene Nicholas, State Representative, North Dakota House of Representatives

Larry Doyle, Executive Vice President, AgFirst Farm Credit Bank

Terry N. Barr, Chief Economist and Vice President for Agriculture and Trade Policy, National Council of Farmer Cooperatives

MR. ROOT: My name is Ken Root. I'm the host of Agri-talk, a national talk radio show about agriculture and rural issues.

My comments are my own, and do not necessarily reflect the views of the U.S. Department of Agriculture or this conference.

This panel is on marketing of the production of our farms. More specifically, marketing strategies that will serve an industry that is stressed right now, and may be stressed even more in the new century. It's about strategies to try to bring it up to a par with the marketing of other sectors of U.S. and world business.

Now, that in itself is going to be quite an accomplishment, to be able to market as well as other businesses, because marketing, unlike production, is a science and an art. And today is the perfect day for me to make this point. It is the day that one of the best known American companies on the worldwide stage is releasing a new product.

Coca-Cola, which was first created in Atlanta at about the same time as the Washington Monument was built, remained the same product from that era of the late 1800's until 1960. In 1960, Coca-Cola realized that they might be doing a little bit better if they marketed something besides one product and one formulation. So at that point, they began their modern focus on marketing. Coke introduced products that had less in them than the original.

They took out the color and caffeine, and they called it Sprite. They took out the calories and they called it Diet Coke. They took out the caffeine again, and they called it caffeine-free Diet Coke, and regular Coke. And today, after taking out the color, the calories and the caffeine, they will market a new product without carbonation. You know it as water. And it costs the same as Coca-Cola.

Now I don't think we're ever going to get this good in agriculture, unless you can sell the bone from the T-bone, and call it T-bone light. But you will find, I think, in coming months, that this new water from Coca-Cola, which obviously I do not have, tastes far better and far different than this water. Up to this point, the best tasting water in any taste test has been tap water from Los Angeles, but that's really irrelevant.

The water will be called Dasani, I think, and it will become as much of a recognized brand name and household worked as Juanita Broderick in the months to come--you'll get that at a later time, I am sure.

Now, not all marketing strategies have been as good as those of Coca-Cola. Perhaps you remember when Chevrolet came out with a car called the Nova. Directly translated into Spanish it means, doesn't go. And if you've had one with more than 25,000 miles on it, I think you would call it just simply truth in advertising.

Also, Frank Perdue's chicken slogan, “it takes a strong man to make a tender chicken,” translated directly into Spanish comes out as, “it takes an aroused man to make a chicken affectionate.” But bottled water here is a want. It is handy. It's a statement. It's a status symbol.

An automobile by its brand name, is only partly utilitarian. But food and fiber are basic needs. We've discovered in agriculture, in an affluent society, which we now have in America, the populace tries to spend all of its money for what it wants and none for what it needs.

In these closing days of this century, agriculture has become highly productive, but it is drowning in its crops and livestock. Is this because its marketing strategy has been less creative and less important than production? What must the industry of agriculture do to sell its products at a profit? How can it increase demand and create new products and new markets?

Well, our panel today is made up of broad-based observers of the marketing skills now possessed by farmers, ranchers and agri-business. They are also innovators in new marketing strategies for agriculture.

I would like to introduce each one of them, and allow them to make brief comments on their general views of why marketing strategies must change. And if applicable, their current work to market agricultural products in a new way. And then we will have a brief exchange of concepts and ideas based on some real world events that have happened in the last year. And then we will ask you, the audience, to join in with us in the same manner as earlier.

Look for the microphone before you ask the question. Your questions and comments are appreciated. As a person who makes his living on talk radio, I would like to emphasize one word, relevant. Hopefully, they will be that. And at the end, we are going to have our panelists do something that we hope will get you thinking even more. They are going to make a prediction. They may decline, but I'm trying to get them to make a prediction of a singular significant marketing or market-oriented change in agriculture we will witness within the next 20 years.

So let me begin on this end with Sonia Hilgren, who is the editor of Farm Journal magazine, and executive vice president of Farm Journal Corporation. Ms. Hilgren holds a bachelor's of journalism and a masters of arts from the University of Missouri School of Journalism. She's been named a Neimann Fellow at Harvard University.

She's been farm editor with UPI in Washington, Washington correspondent with Knight Ritter Newspapers and Washington editor for Farm Journal before her current position as editor in Philadelphia. Sonia was president of the National Press Club in 1996, and last year she was awarded the Oscar in Agriculture for her distinguished career.

Sonia, from your vantage point as a journalist and observer of the political and policy side, what's your grade card on how agriculture has done in this late 20th century in its marketing strategies, and how would you say it will have to change in the 21st?

MS. HILLGREN: Ken, what I'm really worried about is not the 21st century. I'm worried about the last year or two of the 20th century, depending on whether you are a purist about the 21st century beginning in 2001.

I do want to take issue, as I like to do with Ken, as frequently as possible, with something you said about the want and the need. The fact is that food is very related to wants, and chefs are producing all kinds of fabulous things. It is really a reflection of a service economy, all the way through.

MR. ROOT: Yes, but the want occurs after it leaves the farm.

MS. HILLGREN: That's certainly true, but food is very, very associated with wants. Anyway, I will segue into farm production of raw commodities, because that is the difficult situation we are facing.

A keen observer of agriculture told me just last week, and he summarized it as well as anybody could, in the 1980's, a lot of the people who quit farming were people who were not the really strong producers. And in the 1990's, a lot of the people who quit farming are the people who are not good marketers.

This is the kind of thing that people have been preaching for years and years and years. And the reason that American farmers have not embraced it wholeheartedly is, (a) we had some farm programs that didn't require them to do it, and (b) it is really difficult.

If anyone who is not a producer doesn't think it's difficult, you should just think about you own portfolios, and think whether you timed the stock market as well as you would like to. We can all think of the financial mistakes that we make. But basically, with a producer, and with all of us as individuals, if you get in the upper third of price ranges or stock prices, then you are doing pretty well.

I've just come back from the commodity classic, the meeting of corn and soybean producers in Albuquerque. A lot of folks were talking about their neighbors who are going out of business because they want to get out before they lose their equity.

There are an awful lot of guys I talked to who are very good producers, and have their bins full, and I would say too full of crops, because they thought the crops weren't worth very much last year, and they are going to be worth even less this year. But, you know, as we all know, American farmers are terribly resilient, and I see a real interest in serious marketing education.

If you think marketing education and just doing it is not important, take a look at the University of Illinois's ag. mass results, that just came out, and show a difference between average prices, average marketers, for a 1000-acre 50 percent corn, 50 percent soybean producer. There is a $70,000 spread.

In the 1997 marketing year, which extends from September '96 to August '98, the top price was in the $6.70's for soybeans, and $2.70's for corn, which is kind of hard to imagine, in view of some of the really bad prices we had last year. But there are always price opportunities, even in this situation.

As Keith Collins said, clearly, there is a push to soybean production, because of the LDP's, because of the lower cost of production. The interesting thing about that is that if the soybean price goes down to a certain level, that will be a discouraging signal to the Brazilians who are expanding like crazy.

I want to say a word for good old fashioned crop production. This also makes a difference. We are into economics and marketing here. But there is a lot that producers can do to increase their yields. We spend a lot of time at Farm Journal talking about even adjusting your planters. You get 150 bushels at $2.00, that's $300 an acre; 180 bushels at $2.00, that's $360 an acre. And it might be the same inputs if you really, really pay attention. So producers have to pay more attention to marketing as never before.

MR. ROOT: Let me introduce Eugene Nicholas, the chairman of the North Dakota House Agriculture Committee. He has been a State Representative for 24 years, and is now beginning his 10th term as the House Ag. Committee Chairman.

Mr. Nicholas is a citizen legislator. He is a farmer, the owner and operator of a grain and livestock farm for 31 years. He's a graduate of the North Dakota State University in business, economics and political science, and was recognized as the school's outstanding agriculturalist in 1990. And a major reason we are pleased to have Gene with us today on this panel is that he serves on the Board of Directors of Dakota Growers Pasta Company.

Mr. Nicholas, your views on agriculture's marketing skills and the innovations going on in North Dakota?

MR. NICHOLAS: Thank you, Ken. I have had a very unique situation, having been a farmer, citizen, legislator.

We have had the ability in North Dakota to put several programs together that have helped enhance the value-added agenda in our state. First and foremost has been our Ag. Products Utilization Commission. This has allowed farmers to go to a committee and get grants for feasibility studies that can help put these value-added ventures together. We commit approximately $2 million dollars per year to this program, and it has been recognized throughout the country as one of the most successful programs for doing value-added agriculture.

The project I specifically want to speak to you this morning about is Dakota Growers Pasta Company. In 1990, myself and several other North Dakota farmers formed a steering committee and by the fall of 1992, we were operational with Dakota Growers Pasta Company.

We had a $12 million dollar equity drive throughout North Dakota, and we now have one of the fastest growing pasta companies in the U.S. As you know, North Dakota leads the U.S. in durum production. We have now taken 20 percent of the total North Dakota durum crop out of the rail car and put it in the box. We are sending that out of North Dakota, creating jobs.

We have created more than 600 to 700 direct jobs in our state in this value-added industry. I would say this is a success story that is unparalleled anywhere else in the country. We not only have put it in the box, we have made a profit putting it in the box.

I know my Arab ancestors would be very happy with this process, as most of them are rug merchants. But when my grandfather came from Lebanon in the 1890's and homesteaded on land in Towner County in North Dakota, they sent everything out by rail car. By putting it in the box, we are now paying a dividend to our farmers.

Since we have started, the farmers have received all of their capital investment back from that initial investment. In 1997 and 1998, we paid $1.00 a bushel cash dividend to our farmers. And we paid about 80 cents in those two years. In 1999-2000 operating year, I am optimistic that we will again pay $1.00 a bushel to our durum farmers in North Dakota that are members of our coop.

That is a substantial return on their investment. And we know that in agriculture, most farmers only receive about a 2 percent return on their investment. In manufacturing, they receive more than a 13 percent return on their investment.

So as we look to our future and see these kinds of returns on the investment to the North Dakota farmers, this is an area of agriculture that will continue to grow in North Dakota.

Let me tell you the other areas where this is growing in North Dakota. The U.S. spring wheat processors project is now underway. They were successful in raising more than $25 million dollars this past year to launch that project. That is currently under construction, and I believe will be another successful value-added venture.

We also have the North American Bison Cooperative that is paying a dividend to North Dakota farmers. We currently have on the drawing board a beef processing plant and several other different types of value-added ventures. I think that we are on the way to success in a new area of agriculture.

We are trying to move away from complete dependence on government programs, government programs that served us quite well for 60 years. That was a way of life in North Dakota, and most of us spent the winter trying to figure out how to farm the government program.

If they come back as we have known them in previous generations, we will again continue to do that. As we move into the next century, we have to learn how to market our product. I think we are doing a good job of that with our value added coops and LLC's, and I look forward to a profitable future as I move into the next century.

I have told my son, who farms with me, that I think the most important investment that we are making right now is the stock that we are buying in the value-added LLC's and coops. As we plant our 1999 spring durum crop, this will be the first time in the history of our farm that we will have every bushel covered by a value-added coop. In other words, every bushel of our product, all of the durum on our farm, will go to our own marketing fully integrated processing plant. So I think we are headed in the right direction, and I think we will survive as we move into the next century.

MR. ROOT: Gene, thank you very much. I think this is a great illustration of the work not only of farmers together, but also the work within their legislature to encourage this sort of thing. Our next speaker said that your project was the granddaddy of his. Lynn Rundell is the CEO of the 21st Century Alliance, an organization of 750 farmers in six states, with a vision to invest in value-added agricultural businesses. He is also the general manager of the 21st Century Grain Processing Cooperative, and the 21st Century Dairy, two business ventures owned by that alliance of farmers.

He was a graduate of Kansas State University before it became a football powerhouse. He owns a masters degree in agriculture education. He was a vocational agriculture instructor for seven years. He previously served as the executive vice president of the Kansas Association of Wheat Growers, and also as a rural development specialist for Kansas Farm Bureau.

Lynn, your views on agricultural marketing strategies, and the work of the 21st Century Alliance?

MR. RUNDELL: Well, first of all, Ken, can I ask you who's the fifth batter for the St. Louis Cardinals?

MR. ROOT: Nobody cares.

MR. RUNDELL: That's kind of the way I feel today, because you just heard from the home run hitter. Gene Nicholas and Mike Warner have been scoring home runs by the dozens in North Dakota and Minnesota the last 10-15 years, with United Spring Wheat Processors, American Crystal Sugar, and Dakota Growers Pasta.

And they were kind enough in 1996 to come to Kansas and start talking to our farmers about what would happen if you could get a bunch of farmers with a common vision, and who could put together their capital, their resources, and to put together businesses that created value for our crops in the central Plains: for hybrid winter wheat, for corn, soybeans, pinto beans, alfalfa, whatever.

And they came to Kansas and started sharing that vision with our farmers in 1996. And out of that beginning came the 21st Century Alliance. I'm going to take my four minutes, Ken, to talk about how the 21st Century Alliance has organized and what our vision is.

The 21st Century Alliance is an organization of 750 farmers today representing seven different states. Most of those producers are from Kansas, because that's where we start. That's where our roots are. But we have members in seven different states who have decided to become value-added farmers in the central plains.

By the end of March, we will have raised $7 million dollars, and invested in five different value-added coops, and I will name those in just a minute. The way to get in the alliance, it costs $750 for a farmer just to join the club, to get in. And all that $750 does is buy them an opportunity to look at value-added opportunities in agriculture.

So far, of those five businesses, we have 375 of those farmers for our first real project. We bought a flour mill in Rincon, New Mexico. So 375 farmers raised about $3.2 million dollars and delivered 2,850 bushels of wheat per share to New Mexico in an IP system to feed our flour mill.

We also have 100 farmers who invested about $1.3 million dollars, and we're just starting production next week in our first 1,500-cow dairy. We also raised about a half million dollars and built, bought and are operating a small pinto bean processing plant in Colorado and Kansas. We have just started a stock sale. We are projecting about 200 farmers to participate in a 2,600 cow commercial dairy where farmers will deliver corn, milo and alfalfa hay as part of their delivery obligation.

And the last one is an ag. fiber company that is going to cure straw and other fibers for what we think is going to be a new industry, to make things like wheat-straw particle board. They have been started in other parts of the world. Canada has got a $100 million dollar plant. But if they are looking for a place to build a plant, we think Kansas, because we are the wheat state, will be the next place.

So those are the five businesses we've started. And since we've started the businesses and gained a little bit of credibility, we've had lots of agriculture business come to us.

We also have one other small project, and last year we did identity preserve about a half a million bushels of wheat for a company that I won't name, but it is a food company in the central Plains. And from that one little segment of a few farmers putting their resources together, which was identity-preserved wheat, we were able to capture about 25 cents a bushel above the market price for those producers.

It is an age old idea of what can happen if you get 750 farmers working together. I ask farmers all the time, “what would happen if you had five farmers working together, what you could do?” And it is really true. There is real value in that. If we are able to organize farmers, the sky is the limit about what farmers can do in joint marketing efforts.

It takes three things: organization, vision, and credibility. And because I work with the best farmers in the world, we are able to capture those things. That's the strength of what we are trying to do in the central Plains.

MR. ROOT: Lynn, thank you very much. I had time to think about the answer to your question, who is the fifth batter for the St. Louis Cardinals. The fifth one in that inning to score against the Royals will be the answer I would give you.

Our next speaker this morning is Thomas Trantham, Thomas Joseph Trantham, Junior. Mr. Trantham is a dairy farmer from South Carolina, and a member of the Small Farms Commission. He formerly was a grocery store owner in California. He got into farming with no farm background in 1968, and got into dairying in 1978, and became one of the outstanding dairy farmers in the state in just two years.

He is now one of 122 dairies in the State of South Carolina, but he is one with the concept, maybe he's not one of one, but he's one of few with a concept that is reflected in the name of his dairy. It is 12 Aprils Dairy, and with the wind and the cold out there today, I would love for it to be April all year around here. He tries to make it so for his cows.

And if you will look at the front of a book that you may have gotten outside on Exploring Sustainable Agriculture, those are his cows. It looks like April. And they look like they are contented.

Mr. Trantham is a small dairy farmer. I'm sure our audience is most interested in your grade card of the marketing skills of U.S. agriculture, the prospects for the future, and what you are doing.

MR. TRANTHAM: Thank you very much. It's certainly an honor to be here today. But to get right with it, I think there are two directions in agriculture in this country today, the two strongest, I'll say, of many. One is the industrialization of our agriculture, where we consolidate our farms into large production units, and contract farming and so forth, and the focus is on production. In the last 50 years we have focused on production, basically, and that's about all. And we are suffering from that at some points now.

And on the other side of the coin, I see the small family farm involving itself in specialty markets or methods, and more environmentally sound. The family farmer can respond to environmental problems a lot faster than some of your larger units, as we know.

I'm going to tell you about a guy that this happened to, and I happen to be the one. In the 80's, I was the top producer in the state. If I wasn't in the top 10, I'd about have a heart attack. You know, I'd think I was going out of business, because I felt that production was the only thing that was out there for me to survive as a farmer. And unfortunately, I think that's the case today. Most farmers feel that production is the only way out.

But in turn, I had high interest rates and was tremendously in debt. I began to lose the value of my farm. My financial situation was very dim. I was unable to acquire funds for the coming year.

I had a broken down manure spreader, a whole lot of manure, and a bunch of cows. And that was about all I had as assets at the time. So I was in trouble with the environment on the manure, so I spread it out in one field, and the cows, I was in debt with my feed company.

So anyhow, April came, and I was really in a serious situation. But I let the cows into this pasture that I thought they ought to be in. It was clean, and there was nothing there to eat, but it was clean, they would be easy to milk that afternoon.

I no more got them in there, the majority of them were laying down. They'd eaten their TMR, their total mix rice, and they were laying down. I was trying to put up an old fence that I had. I have a gate there now. But at that time, just an old gap fence. And it cut me. And then no more than I got it up, and two heifers already went through the fence.

So I was tremendously disgusted. I threw the gate down. I said, do anything you want to do. And they did. They got up and all went to work. Every cow got up. Every cow went somewhere, where I had thrown the manure prior to that. Nice lush green grass. They all went to work. Every head went down. All those cows went to work.

So, you know, I said, what the heck. The next day I was up two pounds in production. So I began to focus on something besides production. I focused on less input costs, and a better way to get milk.

Through the USDA program, the SARE program, Sustainable Agricultural Research Education, a guy kept telling me, Tom, you ought to do something with this. You are really gaining ground here.

He convinced me to take my plan over to Clemson University. And it went over kind of you know--but I said, "Look, just come to my farm. Come see what I'm doing. I can't tell you enough. You need to see it." They did come. It was the highest rated proposal that year in a southern region in the SARE program.

To make a long story short, we did three years of research at the farm. And this picture that you are talking about is part of that three-year research. That is affalfa-graze. My cows were grazing alfalfa seven months of the year. My production originally went from 20,000 down to 15,000. Then as we proved this program would work, and worked with it, I'm back now to 18,900 pound average. I've reduced my input costs 25 to 40 percent.

We just suffered the worst drought in my time, last year in South Carolina. Even with that, I showed a profit at my farm. So the thing is, the change came to me not because I was so smart, but because I was desperate. But through the USDA program, I was able to do that.

I am known in South Carolina as the dairy farmer with happy cows. The director of extension said he had heard that and he came to the farm one day, and he laughed and he said, "The man does have happy cows." So I feel that we can look into the agriculture in different and better ways. We don't have to focus on production. There are many, many more things that we can do, and that's what I'm about. And I think that we all need to focus on the environment, and the things that make a difference in this country. Thank you.

MR. ROOT: Mr. Trantham, thank you very much. I'm sure there are more questions people may have of you, either up here or individually. Well, now we come to the economist and the banker, over here at the far end, two professions I always enjoy.

I put you at the end of the panel because it is as close to excluding you as I could get. The reason is, one of your professions tells us what we don't want to hear, and the other one makes us do things we don't want to do. I suppose you are a necessary evil, and between you, perhaps you can work out which one of you is necessary and which one of you is evil.

Dr. Terry Barr is chief economist and vice president of agricultural and trade policy for the National Council of Farmer Cooperatives. Dr. Barr holds a Ph.D. in economics from Washington State University. He was employed by the USDA beginning in 1971 at the Economic Research Service. He chaired the World Outlook Board, and worked later on policy analysis and the Secretary's staff. He has been with the National Council of Farmer Cooperatives since1985.

And Mr. Barr, despite my little jabs earlier, we really need the perspective of an economist and a supporter of cooperatives to tell us what we need to do in agricultural marketing.

DR. BARR: Well, I guess I'll take on the mantle of evil, since everybody is going to need credit. So that becomes necessary. I'm going to take a little different tack on this one, because when I look at this topic, the first question that comes to my mind is, what is the market we are trying to talk about?

When you look at this U.S. marketplace today, it is a different market than it was 10 years ago. It is a mature market. It is growing slower. Demand for food is now not about food, but about food characteristics. This marketplace is vastly different in just the last 10 years, and we are going to see a different market that has to be addressed by the producer.

Raw product value is going to be a smaller and smaller part of this industry, because consumers want more services, more properties associated with food will be added after the farm gate. And those are just the realities of this domestic market. This market is simply not the commodity market it was 10 or 15 years ago. And I think producers have to accept that reality.

Additionally, in such a marketplace, mergers and alliances to protect market share and spread costs are going to accelerate. Efforts to explore information technology are going to accelerate, and you can expect intensified competition between branded and private label companies.

The transaction costs of alternative arrangements in the food systems are going to be the big keys. So producers have to look at themselves in terms of where they fit with regard to transaction costs. Retailers are going to seek to maximize flexibility by outsourcing all of the costs that they can outsource, to maintain flexibility.

We've seen a lot of strategies talked about today, in terms of approaches. I will remind you, however, that we are in the middle of, or perhaps nearing the end, of one of the longest post-war economic recoveries that we have seen. So we haven't really tested an awful lot of strategies yet, under a severe test of this new food system. So I think we need to be prepared to make further adjustments in all of these strategies as we go forward.

I would just make a couple of points on new strategies. First, recognize the difference between marketing commodities and marketing product characteristics, because you are no longer in the commodity business. Understand the value chains in which you participate. Seek alliances to ensure participation. Value what you bring to the chain, not just the commodity characteristics.

Information is crucial, and becomes a source of strategic competitive advantage in this type of a food system. Learn contract law as well as you understand production technologies. Accept that production decisions will be largely made by those who purchase your product traits. They will dictate the input bundles that will be utilized. Producers must cooperate with each other if the role of a price-taker is to be avoided.

If you are going to remain a commodity producer, be prepared for more volatility, greater risk, and greater global competition from transferred technology. Your future lies in the export market.

MR. ROOT: Thank you very much. Now, let me turn to our last person, who will give us a basically generally formal statement. Then will start the questions, and then engage you to join with us.

Larry Doyle, thank you very much for being here today.

You are the executive vice president of AgFirst Farm Credit Bank in Columbia, South Carolina. So there are two of you from South Carolina here together. You have an MBA in finance from the University of South Carolina. You are a 1974 graduate. You've spent your career in farm credit, two years with an electric cooperative. You also have coop and farmer loan experience.

You are a native of South Carolina from a tobacco farm, and still have an active interest in that farm. From the lender’s perspective, give it to us straight. Has marketing been the farmer's weak point, and can agriculture do better in the years ahead, and how?

MR. DOYLE: Well, I guess I would open by saying that certainly marketing has been the weak point. If you look at that it is a little bit like the field of dreams with U.S. Agriculture. If you purport there is a market there, certainly in the United States we can produce an abundance and we are great at production. But we are not so good at how to market the product.

I think we would generally agree, as far as looking down the road, that while we are sort of in a painful transition at the moment, that it is likely the worldwide demand for food will increase. It is also likely that with globalization, while even though we are in a little bit of a slump now, there is going to be more improvement in affluence worldwide.

So if you look at it from the U.S. producers’ prospective, it is a pretty positive period, once we get through the transition. What would concern me most, though, is following off of Mr. Barr's comments. All bankers tend to think of risk all the time. And if you think about the greatest measure of risk, it is volatility. And if you look at agriculture in its current state, there is tremendous volatility, especially since we have reduced the supports for farmers, and they are more at an open market system.

I think Mr. Barr mentioned moving away from a commodity basis. As a lender, I would be more concerned than anything else about that particular aspect. Farmers must figure out how to move away from just being a producer of a commodity.

Now, there are lots of different ways to do that, and in the Mid-Atlantic and Southeast we at AgFirst are a federated cooperative, we are a wholesale lender to 38 lending cooperatives that operate from Pennsylvania to Puerto Rico to Louisiana. As we look at our borrowers, we've seen many marketing strategies. So when I speak, I would not speak necessarily from the farmer's prospective, but I get to see proposals and see what people have done.

Farmers can do much for themselves to vertically integrate. And when someone thinks of vertically integrating, they also think of giving up the control or all the other negative things that come to mind. But I've seen so many different methods to vertically integrate. You can do it through alignments. You can do it through partnering. You can do it contractually; that is, having someone that is in processing and marketing and has brands to agree to some type of participatory contract on a cost-plus basis or things of that nature.

For those who like to cooperate with one another, we always have a natural in cooperatives. But some people like to keep their business more to themselves, and don't always enjoy capitalizing or supporting a cooperative. Certainly for me, coming from a cooperative, I think that's certainly the vehicle by which small producers can mimic the activities of large corporate operations.

But whether you choose to join a cooperative and do the value-added approach that we've already heard about, or you choose to partner with someone, contractually obligate your production to someone, or align with others, a farmer certainly had better begin to use some of those vehicles. I think that farmers will definitely not be able to be successful at moving forward unless they are able to reduce the volatility.

Now, there's a lot of industries out there where it is a natural to do that. I look at meat packers. They are as volatile as farmers. So isn't it natural for a meat packer to partner and align with producers on some contractual basis which can be counter-cyclical and smooth earnings for both parties? I would say that was the most important thing for farmers.

MR. ROOT: Larry, thank you for that. Let's loosen this up a little bit, now, and see if we can take a few questions from you in just a moment. Let me start out with the group.

We heard two Secretaries of Agriculture today, with a lot of experience. One of the things I got from it was that change is happening at an increasing rate right now. An example of this is the hog crisis of the last quarter of last year. It may not be specifically in your area, But I would like to get any of your opinions on this.

What can we take from what happened to the hog business last year, when prices plunged to as low as 9 cents, and the price at the supermarket did not go down at all. And, hog producers who didn't have any link to the packers were faced with bankruptcy in a matter of months?

MS. HILLGREN: I'd like to say something about that, because I spent some time with a producer who did have a link to a packer, a contract with IBP. And so he gets a basic price. But he owes IBP money, because IBP was giving him cash flow, and he owes money with interest.

MR. ROOT: So he had a ledger contract?

MS. HILLGREN: He had a ledger contract. So a connection with a packer is still iffy. You know, it's going to take him quite a while to get that $75,000 back in prices that he owes IBP.

MR. ROOT: Well, Larry over here was talking about this connection with these people. Let's say we go this way, Sonia. The traditional producer who has felt like he didn't want a contract with anybody because he'd miss the highs, well now, he is basically not going to have any chance of being able to make any money in the long term unless he contracts with somebody. Is that the way you see it, that he's got to contract, Mr. Doyle, to be able to have any guarantee of staying in business?

MR. DOYLE: Well, being a lender, we've seen about everything, I guess, as far as structure. And hogs is a good example. In the Southeast, you've had a migration to vertical integration. You have most of the producers who are contract growers, not just independents with a market price. So in that environment, the contract grower receives a price mainly for his labor and fixed assets.

If you look at stress in the hog industry in the Southeast, those contract growers are not feeling any pinch at this time, related to the hog crisis. Now, they do have some credit risk concerns, because they are being paid by an integrator or a hog producer, and it will hinge on how long and how successful those major companies or corporate farms are.

Those types of companies vary in size from small to medium to extremely large. If you are an independent producer, though, and we have others in the Mid Atlantic, you will have cases where folks have what Sonia described as a ledger contract. You will have others who have cost-plus contracts. And you will have others who are just receiving several cents a pound premium.

I feel like producers will have to evaluate all the alternatives, and seek the one that will give them a fair return with less volatility. But there are some relationships out there that work very well, even in the dire situation we have today.

MR. ROOT: Gene?

MR. NICHOLAS: Well, I always think there is a combination of circumstances when there is a catastrophe in the livestock markets. Go back to '86 with the whole herd dairy buy-out. We all know what happened to cash finished beef prices. Again this is a combination of circumstances. Number one, we had a major Canadian packer on strike. We had record numbers of Canadian hogs and livestock pouring into our traditional markets. Over the U.S., packers did not have the capacity to kill those animals, and so consequently there was a surplus of animals and the price went to nearly 8 cents a pound. That's unprecedented, since the depression of the 30's.

So I think we have to continue to look at our neighbors at the north, and the Canadians have been not only disruptive in our livestock markets; they've been very disruptive in our grain markets. They have a pricing policy on Canadian grain that would be illegal in this country. They have a monopoly up there, and we have them sending 25 percent of their domestic spring wheat into our market, 18 percent of their durum comes into our market, with a pricing policy that we can't even get access to. So look at what happened. Here is a catastrophe. Is that what's going to happen in the spring wheat and the durum markets? And they are both going down very fast. Last year's wheat prices might look good in comparison to what we are going to get this year.

MR. ROOT: -- the operations that Lynn is speaking of, one is 1,500, one is 2,600 cows. Mr. Trantham, how many cows do you milk now?

MR. TRANTHAM: 86.

MR. ROOT: And what's your goal?

MR. TRANTHOM: 60.

MR. ROOT: 60. Okay. We used to milk 100. My goal was zero. And we hit it.

MR. TRANTHAM: You needs 12 Aprils.

MR. ROOT: Can you coexist? Both of you are selling into the commodity market. Can you coexist?

MR. TRANTHAM: Yes, sir. Certainly. I've never enjoyed my life more, nor my dairy, and I'm selling to the second largest dairy coop in the United States. So the product that I have is of the highest of quality. They need my product, probably some of the other product needs my help. And so I think something we are going to look into is quality of product.

MR. ROOT: Are they paying you a premium for what you are selling them?

MR. TRANTHAM: Yes, sir. I do get a premium for low bacteria leucocyte count that I have. But I feel that this country right now is more concerned about the quality of its food than ever in its history. So I personally want to push on that. I want to let people know how good mine is. And I think that in the future I may even go into bottling on farm- processing. But these type of things are open. That's the thing about a small family farm. We're not controlled or limited to huge corporate companies, and these huge conglomerate-owned facilities that have rules and regulations.

When I was the manager of a Mayfair Market out in California, I had to comply with their rules to run their stores. They broke my one store loose and let me go on my own. It was fourth from the bottom when I took it over, and it was fourth from the top when I left it.

So I think the ability for the American people to involve themselves in their own lives in their own ways, that we can withstand. But we do need USDA to focus more on the family farm. Eighty percent of the farmers in this country today are small family farmers, by the definition that we have. And with that, USDA needs to focus on the majority and not be so focused on the larger producer. And on production. Production is the driving force of agriculture. And we've got to change that.

MR. ROOT: You are saying that you have 80 percent of the farmers who are small, but you are not in the majority of total production. In fact, you are in the minority of total production.

Let me go to the other side of this, and without having to be competitive or even predatory on the smaller dairymen, your good, it seems to me, is to be as efficient as you possibly can, and in effect, that makes you competitive with a small dairy.

MR. RUNDELL: Well, let me make it clear that our dairy farms are owned by small family farmers. We have 100 small family farmers that own a 1,500 cow dairy in Washington County, Kansas.

And those producers are only are owning 10 or 15 cows. They don't have the management experience or the ability, like Tom, to run their own dairy, or the capital to spend a million and a half dollars and build a commercial dairy that is going to be competitive long term in this industry. But they've been able to pool their resources and their abilities, and make that happen, and be in a value-added situation as a producer.

That's not where we're headed, though. Long term, the farmers that own the Washington County Dairy, and the farms that own Ladder Creek Dairy, and want to be in the milk processing business. And it might be with an existing partner, rather than building their own bricks and mortar. It might be partnering with an existing dairy processor, taking more of that food dollar that is going actually to the consumer.

So our goal is not just to milk cows. It is to become a milk processor. But to be integrated, so that we are protecting those 100 farmers that owned a piece of that dairy. They may own $10,000 or $15,000 of that dairy today. Our goal is to own a piece of that, and eventually own part of the processing industry. I think that's where we've got to be in the future, if we want to truly be marketing food products instead of commodities.

MR. ROOT: All right. Let's go to the audience here. Questions around the room here? Yes, sir. Allen, is it?

ALLEN: Yes, sir.

MR. ROOT: Hey, I just got a message for you. Your cows are out and you're supposed to go home and put them in.

ALLEN: That's what I've got a wife for.

MR. ROOT: You need to leave now. Oh, good. That will make her happy. That will make you a big celebrity at lunch.

ALLEN: These are all marketing experts, and brought up some good points, but I think Sonia brought up the best point. Last year, the producer had the opportunity, if he was lucky in his marketing or smart, whatever to market his product at a decent price, yet he still received a huge government subsidy, or payments in the process.

But this year, you guys are marketing experts, and here Keith Collins just told us that LDP is going to cost the taxpayer on soybeans alone $2.5 billion, which relates to probably total LDP outlays for the taxpayer this coming year of $4 billion dollars. And yet for $400 million, we could an additional 6 million acres in CRP right now, and eliminate that cost, or at least address the disaster that we have facing the farmer.

Every speaker from the Ag. Department related to the problems we have. As expert marketers, shouldn't we be addressing those to Congress and the Secretary in the next 30 days, rather than letting this disaster happen that they are all talking about?

MR. ROOT: Would any of you like to address this, especially with the knowledge that in the short term, some farmers may go broke.

DR. BARR: Well, I think we've been down that road before. If you look back at the roots of the basic problem you've got in the markets today, in 1996, the world brought back into production about 40 million acres. Fifteen million of it came back in the U.S. Basically, we've rebuilt inventory since that period of time.

If we take the acreage out, the rest of the world is not going to take the acreage out. We've been through this before. We'll idle it. But it will not be sufficient to alter the supply/demand balances globally, unless weather intervenes. And we've been through these periods before, or we've used the PIC program in the mid-80's. And by and large, we simply give away our markets.

The better strategy is to turn it the other way and become much more aggressive in moving our product into the world market. So we can keep our acreage in production, and force global acreage out that is less efficient than ours. And that means matching government policies, the government policies of our competitors.

MR. ROOT: Gene.

MR. NICHOLAS: I agree with Mr. Barr. I think we have to get extremely aggressive in moving these products out of here. We have to export these products. We have to move them. In North Dakota, as in other states, soybeans, oilseeds, sunflowers and flax are the only crops that farmers are going to be able to go to the field with and get a cash flow. So the LDP's on the oilseeds are going to be enormous.

MR. ROOT: Tom.

MR. TRANTHAM: One thing we have got to realize is, for a farmer to survive, he needs a profit at the farm level. Today, we are receiving the least for our product that we ever have in the history of this country, yet our input costs are at the highest level they've ever been. And yet the retail price of our products is also at the highest level it's ever been.

When I was in the grocery business, in the dairy department, you made 15 percent, and that was it. If you got over that, you didn't sell your product. I can give you stores now that, chain stores in large areas, that are making 42 percent profit in the diary department.

And a bushel of green beans: farmer's cost at $7.00 and returning $40 to $60 at the retail level. I think we need to see a farm price, and we can take care of our product.

MR. ROOT: Well, may I ask you this directly?

MR. TRANTHAM: Yes.

MR. ROOT: Whose fault is it that the way you do business versus the way the middle man does business gives them the capability of squeezing you on the low end, and holding the price up to the consumer, while you just don't take any other avenue around them at all, and always sell through them?

MR. TRANTHAM: Well, I think the early 80's with Secretary Block here, certainly revealed a lot of it. We took down the fence rows. We stimulated production. And then our product was not sold like we were told that it was. So we stimulated production, which was the direction that we went from that point on, production at any cost.

With this huge production, we, in turn, allowed our coops, or whoever, to take our product at any price, because first of all, we had huge indebtedness on our farms. We had borrowed too much money. We borrowed it at too high interest rates. So we were locked in at that point. We had a perishable product, and a huge debt. We had no choice but to let it go at whatever a person would offer us.

MR. ROOT: Sonia, do you have a question? Then we will take a question from in the audience.

MS. HILLGREN: I have to ask a question of Lynn and Gene. You both talked about the success stories. There have been a lot of problems. For instance, ProGold and Minnesota Corn Processors had to be bailed out by Cargill and ADM. So I would like you to both discuss the down side.

And also, we can't have too much of it, so that, there is more production than the market will bear.

MR. NICHOLAS: Well, number one, the Minnesota Corn Processors got caught up in hedge-to-arrive contracts. That's a hedging problem. And ProGold, very simply, in the corn sweetener market, we were supposed to have access to the Mexican markets when that was established. And so far, since that inception, the access has not been there for those Mexican markets. But I will say that Pro Gold is still operational. The farmer's equity, hopefully, is going to be held together by the partnership with Cargill, and in the long term, that project will be successful.

MR. ROOT: It seems that it is clear, they don't all work. But you know, if you are walking off a cliff, or you determine you are, should you not look for another pathway that may result in something other than what seems to be inevitable for many farmers?

MR. RUNDELL: Let's just say there is no guarantee for success in any business. I think if you think of the risk involved in investing the value-added cooperative, I would say that cattle producers across this country think it is still pretty risky to raise a $60 fat cow for five years in a row. So there is risk in all parts of agriculture.

And putting your money in a value-added cooperative or a value-added business has tremendous risks. I tell farmers at every meeting that we sell stock at, if you are not willing to lose $20,000, don't invest it. And that is exactly what has to happen.

Farmers have to start thinking differently about their long-term capital investments in agriculture. We are here on a panel on marketing. Isn't it interesting there is nobody here talking about the futures market? We are talking about marketing products, instead of commodities.

Someone just said that we have to recognize differences between marketing commodities and marketing specific characteristics in the future. If farmers don't figure out ways to develop systems to capture the value of the future of genetically engineered agriculture, we are going to be left at the end of a contract production system that looks a lot like the hog production system, or the poultry production system. Is that what farmers and the grain industry want long term?

This value-added idea of farmers putting their capital together is not the only answer, but it is an answer for farmers who are willing to take marketing risks. And I'm talking about risks in the marketplace, with customers, selling their products to customers, getting closer.

We own a flour mill in New Mexico. That's a long way from the customer. But we're getting closer than we were five years ago. We've got 375 farmers who can market their identify-preserved wheat through a vertically integrated system to tortilla manufacturers in the southwest.

No, this isn't for everybody, but it is a way to capture some value, Sonia, if we don't do something different, we'll end up at the end of a contract. And I don't think there is a lot of farmers in my state, in my region, that want to be contract production growers.

MS. HILGREN: I was talking about the futures market, and even if somebody is selling to an entity like this, it is also good to hedge. Then you can really make some extra money.

MR. RUNDELL: Absolutely.

MR. ROOT: Okay. Let's take a question over here in the audience, or a comment.

QUESTION: For the record, both ProGold and MCP stockholders went broke because they continued to sell below cost of production, just like you guys are recommending to the American farmer, and they both bellied up. That's why they went broke, both of them. They kept selling, even below cost of production. And now you are telling American farmers to do the same. He can't -- either.

MR. ROOT: Yes, sir.

MR. McGRATH: A further question on Mr. Rundell's comment about the emerging biotechnology. My name is Mike McGrath, State of Delaware. We are seeing the multinational chemical corporations and even pharmaceutical companies are sending billions of dollars over the next five to 10 years to penetrate into the commodity market, and create value for not only human nutrition, but we've even heard for human pharmaceutical purposes within the plant production system.

But certainly these companies are going to look to recoup those research costs through ownership from the genome all the way to the supermarket shelf. How can the American farmer address this emerging and exciting technology, but keep some of that value on the farm?

MR. RUNDELL: I guess the simple answer is, if farmers don't organize themselves, if they wait and let it happen to them, they're going to get 15 cents a bushel above the market price for the highest value corn nutra-ceutical product that is out there in 10 years.

So if farmers don't allow themselves and don't put themselves together in groups that can IP products, and become vertically integrated, and look for partners instead of premiums, then we will be vertically integrated from the top down. We will be at the mercy of those high-tech genetic companies that own the research and the technology for 15 cents a bushel. Long term, we can't operate on 15 cents a bushel above $1.80 corn. That still doesn't work.

MR. McGRATH: From the banker and the economist's side down here, are we in a trend that is so strong that it is literally inevitable? We will stay within a narrow range here of what farmers options are in the future for the majority of our production? And in saying so, are we then destined to have a major decline in the number of farmers in this country in the next few years?

MR. DOYLE: Well, I'll take the first shot at that. I think, certainly, the trend to consolidation will continue, mainly because of all the things that are being raised in the room today. Farmers have to worry about globalization. They have to worry about technology. And they have to worry about genetics.

I've spent my whole career as a banker in cooperatives. If you ask, "What causes cooperatives to fail?", typically cooperatives are under-capitalized, they have poor liquidity, and usually they settle for less than the best in leadership and management.

Cooperatives that flourish have a membership that is fully dedicated. They have a membership that has got a long-term view to establishing a presence in some part of business. They capitalize it well. They leave a lot of liquidity in the business. And they pick leadership that can compete against multinational companies, or any other players in the marketplace.

Cooperatives are disappearing. If you look at the characteristics of those who disappear, they will have those characteristics of always looking for the short run versus the long run.

Congress was very insightful, even back in the early 1900's. First, it gave agricultural producers cash basis tax accounting. Then too, they gave the farmer's cooperative the ability to take advantage of single taxation.

So he has an advantage as a business structure. Now, the fact in agriculture that we won't belly up to taking advantage of what Congress visualized and those with a lot of vision in the early 1900's talked about, is really our fault, completely. So about the question of genetics, about the question of technology, and about the question of how to compete in a global economy, a cooperative is a natural extension of the farm. In theory, if every farmer would get all of his inputs and market all of his products through cooperatives, and in turn would expect those cooperatives to operate and give a return on capital comparable to everyone else in other forms of business in the marketplace, then he is actually getting all of his inputs at cost.

That sounds very theoretical, but there are a lot of cooperatives where that works, and a lot where it fails. But generally, where it fails, the members don't want to capitalize it.

The hedge-to-arrive contracts are an interesting thing from a banker's point of view. What's the underlying problem with a hedge-to-arrive contract? It is that the farmer might not delivery what he said he would deliver. Now, management probably should have had a contractual obligation for which he could sue the farmer, but the fact is he saw a greener pasture, delivered the product somewhere else, and left his cooperative holding the bag.

So until farmers take a longer run view, and get in a self-help mode to take their business, and take advantage of the things Congress has already provided, it's going to be pretty dismal. And it will be just like the gentleman just talked about. It will be ADM and everyone else who bellies up to the bar and gets a return for their stockholders. If farmers want a return, a piece of that, they are going to have to form their own companies and take the return as stockholders themselves.

MS. HILGREN: Well, cooperatives have been consolidating like everything else. I've been getting some letters from readers complaining about the size and power of the largest coops. But finally, they are large enough to be able to compete with the multi-nationals.

MR. DOYLE: Some are.

DR. BARR: Let me make a comment on the producer opportunities. When you look at the marketplace that we're going to be headed into, the consumer is going to be very concerned about quality, about freshness, about traceability of the product. All of those things are going to give producers more niche opportunities in local markets, if they can capitalize those opportunities.

Now, that's not the mass market. You know, 6 percent of agricultural producers in this country produce 60 percent of all the output. So that concentration is going to go on. But watch what happens in the consumer marketplace. This population is getting older. It's going to move into retirement communities. Concern about food is going to be very much focused on the characteristics of it. And that's going to give opportunities for producers to put their label on it and say, we endorse this. It is safe. It is wholesome. We know how we've treated it. I'm ready to show you how we treat it through the whole process. And that has value in local markets.

MR. ROOT: I think that is a very astute observation. But the question I have is, will farmers do that individually, or will they do it through coops or closed coops or LLC's, and will they turn the management over to someone else of that operation and just continue to produce for it. How do you see that, Gene?

MR. NICHOLAS: Well, by and large, the bulk of the raw product, as the gentleman over here said, 80 percent of this production is produced from smaller family farms. And certainly in North Dakota, we've got 30,000 family farms. They grow the great bulk of that production.

We do not even have a corporate farm law in North Dakota. So for the foreseeable future, the bulk of this produce is going to be grown on those family farms. If those family farms are willing, as I said, to take a step further, towards integration, every bushel of my durum this year will move through my coop.

MS. HILLGREN: You know, this panel has not been talking enough about genetically modified crops, because stacked genes are going to give us all kinds of qualities that we don't even know, and there certainly is going to be a lot more contract production in every producer, and every food company is going to have to deal with it. There will be contract arrangements all over the place. We are really seeing a revolution.

MR. RUNDELL: Can I make a comment, because I've been critical of contract production? What I'm critical of is producers individually slicing each other to pieces. Because if you'll produce it for 15 cents, I'll do it for a dime because I'm bigger than you are and I can afford to do that on a commodity basis. Even a high-value crop that is going to be a commodity some day. I think what has to happen is, farmers that can catch the vision to put their capital and their resources together, their ability to grow and store and deliver IP products together.

Once you have that entity, you can go to the company that has the technology and say, we'll put together a system for you, but we want a piece of the value. We don't want to be chopped up for 15 cents a bushel. We want a piece long term of the value that is going to be in that high value crop. That's where we have to get. Otherwise, we are going to chop each other up for 15 cents a bushel, independent producers.

MS. HILLGREN: I don't know about people chopping each other. I mean, I think that the market will, indeed, do that. And the price value of value-added crops is already declined. It's declining all the time, because these value-added crops will become commodities.

MR. ROOT: Well, in saying that on the promotion and the marketing side, and seeing a decline that was called for earlier today on this year of as much as 27 percent, and also noting that a couple of the check-off by commodity groups are under review, one being the soybean check-off, the other one being somewhat of a hostile move on the beef check-off, do you think that those check-offs are going to become victims of the low prices and dissatisfaction of farmers who can't get a market for their product at the price they want?

MR. NICHOLAS: Well, Ken, let me tell you what we are doing in North Dakota. I am a cosponsor of a bill. We have a wheat check-off. We currently have eight mills. We are increasing that to 10 mills. And we are going to earmark those two mills specifically for the wheat commission. And North Dakota farmers are going to pay for this. It is going to raise probably a million to a million and a half dollars per biennium, to be used specifically to fight for trade policies that are favorable to North Dakota farmers. And I see this expanding into other states like Minnesota, South Dakota, Montana, perhaps Kansas and Nebraska.

I think states are going to have to go together, because we have very unfair trade policies right now for the U.S. farmer. When we see the European Community subsidizing barley into the West Coast at a buck and a half a bushel, that's more than I can get for feed barley in North Dakota.

MR. ROOT: Mr. Trantham, you are contributing to the dairy check-off, are you not?

MR. TRANTHAM: That's correct.

MR. ROOT: Would you rather spend the money yourself, or just not have to pay it? Or would you like to pay it in support of a program that has obviously got a lot of recognition across the country?

MR. TRANTHAM: Well, I certainly am supportive of stimulating production and sales, of course. But I think where the real problem lies is who gets in charge of where it is to be spent.

During a tremendous surplus era of dairy, some of that money was used to do some research and work on BST. I think that brought tremendous ill feelings towards the dairy farmers, that we would actually take money out of that program to do something like that. I think that was very wrong.

So I believe that's the answer to it. I believe if these funds are used for that person's commodity and it is controlled by the farmer, I am very supportive of it. I think we need to promote our products. But I don't think it should be left too loosely as to what can be done with the money.

MR. ROOT: Do you use BST?

MR. TRANTHAM: No, sir.

MR. ROOT: Why not?

MR. TRANTHAM: It is an expense that doesn't bring any return back to me, like 12 Aprils grazing.

MR. ROOT: Okay. So it is a matter of economics?

MR. TRANTHAM: One of the matters is economics, yes, sir.

MR. ROOT: Well then, wouldn't it be logical that if you were to work on a promotion or a production technique with that kind of money, and then the producer has the choice of whether he takes it or not, that was still a good investment?

MR. TRANTHAM: Well, it would have been for the company that was making the product. I don't think it should have come from all the dairy farmers. I don't think that was something that was in the rules and regulations, that money could have been used for. When we farmers hear that it is used for something else that it wasn't supposed to be used for, that is what really tears the program down.

MR. ROOT: Question over here, sir?

QUESTION: Yes, I was curious as a member of one of the multinationals, is there some way that our companies could partner with you to improve the value to you on your end? I know we are a cause to you, but we would like to maybe partner with you on the other side.

MR. ROOT: The fear, I think, some people have of partnering with you when you are real big is that you always win.

MR. NICHOLAS: I think there is a lot of interest in partnering with you, if there is something in it for the farmer. It is very simple.

MR. RUNDELL: I think from a smaller nature, if farmers eventually don't get their name on shelf in some fashion, if we are not identified with your brand name, whatever it is I don't know what company you represent--but if your name is on the shelf an we are not there beside you, we ultimately lose.

We've got to be able to market the very strength of American agriculture, which is quality, very specific characteristics and traits of crops that are going to be identity preserved. Can we market that through your company? If so, we would love to partner with you. But make sure that you recognize, we want a piece of the partnership that is going to be long term in value.

You've spent billions of dollars putting your name on the shelf and buying the retail shelf space. We need to be partners with you at that point as well. I think U.S. Premium Beef is a good example. In the beef business, they've raised $70 million dollars. You are going to hear from them this afternoon at 3:00. And they are putting their product on the shelf in a partnership with Farmland Industries.

There are real opportunities to do that, but you have to understand what we want. And I truly say this, if farmers are willing to sell out for 15 cents a bushel, long term, then that would be to your best advantage to do that, rather than put a partnership together. But I think there are farmers out there that will be able to be very good partners for you, and really deliver value, not just talk about it.

MR. ROOT: I think Lynn makes a very good point. As we move forward in the food chain, the farmer's share of the shelf space, let's take the Super Values, the Krogers, they are all putting their shelf space and more of their own product on the shelf. The branded labels are losing shelf space. So the successful coop is the one that is going to be able to put his raw product into the Super Value or the Kroger's box.

MS. HILLGREN: Well, there has been an incredible proliferation of brands from companies, all the global companies, all the local companies. In the 90's, it has just been phenomenal. That's why there is more pressure on the shelf space, and the grocers are charging more and more for that shelf space. I'm not sure that some of these farmer owned coops will be able to fight in that arena.

MR. RUNDELL: Yes, I think that there is a point there. One has to be realistic about the marketplace that you are looking at. When you look out there today, you'll find that the top four chains in the retail side and the grocery store side have already 30 percent of that market.

When you look at up and down the food system, it's not clear that you have the wherewithal to suddenly introduce yourself into that marketplace. And I think there is a need to be cognizant of using that capital in the best way to get as much value out of that system as you can. It may not necessarily mean it has to be at the retail level, but you can still buy pieces of that food chain. To say, “I'm going to put something on the shelf with my label on it,” in this marketplace today, is simply being unrealistic in terms of capital required.

MR. ROOT: Mr. Trantham, a last comment?

MR. TRANTHAM: Yes, sir. I would like to make an exact statement.

Kraft Food dominates almost 80 percent of the cheese in the industry. And yet they can go to Green Bay, Wisconsin, and bid on cheese and take my price down immediately, just by bidding on cheese at that time.

In fact the dairy department in the grocery store chain is the highest profit department in the entire chain: $12.80 per linear foot for dairy products. The closest thing to it is $8.60 per linear foot for frozen food. So I would love to have you play on my side and get me into that $12.80 range, and not lowering my price by bidding on cheese in Green Bay, Wisconsin.

MR. ROOT: Have you ever heard of Braums Dairy Stores in Oklahoma and surrounding states?

MR. TRANTHAM: Yes, sir. I have. They are excellent.

MR. ROOT: One dairyman who has taken this to over 100 stores, and sells it directly, and there is nobody but him from the cow to the cash register.

MR. TRANTHAM: Fabulous, fabulous story.

MR. ROOT: Let me stop with the questions at this point and ask our panelists to make one final comment, either an accolade or an admonition to American agriculture. And if they will, a prediction of something major within marketing or marketing strategies that will happen in the next 10 years, 20 years. I'll give them 20. Most of you will be around for 20. Well, not all of you, but some of you will be around for 20. And we'll see if it comes true.

Mr. Doyle, this time we will start with you.

MR. DOYLE: I'll be very brief. I have seen at least a couple of cooperatives that have done well in the branded business. They are closed cooperatives. They are recognized nationally, and their brands compete well. So there are those who can have a long term view and execute the strategy, and it has worked very well when they have done so.

I do think that the trend of consolidation will continue at an every-increasing pace, and especially if there are smaller producers who want to remain in agriculture in a very active way. They are going to have to align themselves or partner with someone, or be fully dedicated to a cooperative structure to compete. And that's not to say it can't be done, but certainly it will have to reflect a major change from where we are today.

MR. ROOT: That was your prediction, that what's happening now is going to continue to happen at a higher speed?

MR. DOYLE: Yes, vertical integration will be at an exponential pace.

MR. ROOT: Very comforting. Mr. Barr?

DR. BARR: Well, as far as an admonition, I guess that would be to spend a little bit more time understanding what that market is that you are supposedly building a strategy around. Understand where that ultimate market is.

As far as a 20-year forecast, if agriculture is going to be prosperous and a growing industry in 20 years, I think you will see U.S. agricultural production capacity become integrated into the self-sufficiency strategies of major foreign buyers through binding delivery contracts.

MR. ROOT: All right. Thank you. Mr. Trantham.

MR. TRANTHAM: I feel that the industrialization and the small family farm will still be the leading factors in agriculture. But what I would say is, I have a definition for sustainable agriculture:

There will be more pressure applied to Congress and to this country than ever before in the next 20 years, to clean up our act and have a quality product. So my definition for sustainable agriculture over the next 20 years is to provide through the sale of our agricultural products the ability to maintain the quality of the air, water, soil, crops and animals, and an economic value to our families, communities, state and nation. In turn we will disburse the greatest wealth in America to millions instead of to an extreme few.

MR. ROOT: All right. Lynn Rundell, your comment and prediction.

MR. RUNDELL: Well, net farm income for the average U.S. farmer is around $40,000. Of that, $35,000 for the average farmer comes from off the farm, and $5,000 is truly from the farm. The answer to that problematic equation is not to get another spouse and double your farm income. The answer is to create more value by adding more value, true value to the system you have already invested in by owning at least the next step up. Owning a portion of at least the next step up in processing agriculture; seeing farmers as not just producers but also processors; reading the Milling and Baking News, instead of just Farm Journal. That's where farmers have to get to.

MS. HILLGREN: Whoa.

MR. ROOT: Okay.

MS. HILLGREN: We have a new magazine entitled Global Agri-Business that deals with the world market.

MR. RUNDELL: Okay. But my prediction is that in the next 20 years, you will see an organization formed, from Michigan to Texas, that will include up to 20,000 farmers who have the same vision, to become partners in the food business. That will have brand label recognition, with partners in the food business.

MR. ROOT: Okay. Eugene Nicholas.

MR. NICHOLAS: My prediction is that in the next 20 years, the only farmers that will survive are those that are totally integrated; totally integrated on your production, whether it be in spring wheat products, putting it in the form of a bagel or a bread stick or whatever. And in the durum, you are going to have to integrate into this industry.

You are seeing much more integration into the pasta industry, and I think it is going to happen at a much more rapid rate. We have to export two-thirds of the wheat out of this country. And if we are going to continue to be competitive in those world markets, we are going to have a high degree of Federal involvement to stay competitive. I don't see the Federal Government getting out of agriculture as much as some at this conference might like to think it is going to get out. It has to be there if we are going to compete against foreign governments.

MR. ROOT: And Sonia, we started with you. We would like to end with you.

MS. HILLGREN: I want a totally, totally blue sky. I think 20 years is a really, really long time with the speed of change that we have. And I would commend you to reading a four part series called "Global Contagion" in last week's New York Times. You can find it on the Internet at the nytimes.com site

We really have to fix this global economy. There are strategies for dealing with the global economy, but all of us are very much effected by it. I think we might have perhaps three currencies, and we are just going to have capital running around like crazy.

And I think that U.S. producers and U.S. closed coops are going to be dealing in different parts of the U.S. and different parts of the world. Gene is sort of shy here, but he is involved in some production in different parts of the country. And he works with somebody who produces in North Dakota and in Latin America. And this is one of the ways we are going to protect from the vagaries of weather and markets.

I do think it is important to say that, this panel was very tilted toward coops. And I grew up in South Dakota. I understand this. We like coops in the Plains and in the upper Midwest. But in fact, individual producers, they don't like it. You are talking about 20,000 producers. There are a whole lot more than that.

They are all dealing with, “What is going to be my relationship with these agri-businesses?” There will be a lot of contracts. And there will be a lot of efforts by the people who can market really, really well using hedging and everything else who are going to be the survivors.

MR. ROOT: And your singular prediction? Did you just make it and I missed it?

MS. HILLGREN: My prediction was, we are going to have three global currencies.

MR. ROOT: Three global currencies. Will the dollar be one of them?

MS. HILLGREN: Dollar, Euro and Yen.

MR. ROOT: Okay. In closing I would like to thank our panel for their frank and open comments. I know a lot of you came a long ways today, and I do appreciate it.