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U.S Department of Agriculture
Agricultural Outlook Forum 2001
February 22 & 23, 2001

IMPLICATIONS OF STRUCTURAL CHANGE FOR AGRIBUSINESS

Tim R. Daugherty
Vice President and President of Grain and Grain Processing
Farmland Industries, Inc.



Agricultural Outlook Forum 2001

“Implications of Structural Change
for Agribusiness”

Farmland Profile

- Headquarters:** Kansas City, MO
- 2000 Sales:** \$12.2 billion
- Owners:** 1,700 local cooperatives
600,000 North American producers
and ranchers
- Motto:** Proud to be Farmer Owned®
- Assets:** \$3.3 billion asset base
- Mission:** *To be a global, consumer-driven,
producer-owned, financially successful
“farm-to-table” cooperative system.*

Today's Topic.....

Change!





Source: National Geographic

Why did this event make such a difference?

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



Marketing?

A business function that:

- ◆ Identifies unfulfilled needs and wants
- ◆ Defines scope and magnitude of needs and wants
- ◆ Establishes a company's targets
- ◆ Decides the appropriate products, services, and programs
- ◆ Causes everyone in the organization to “think about and serve the customer.”



Who is the Customer?



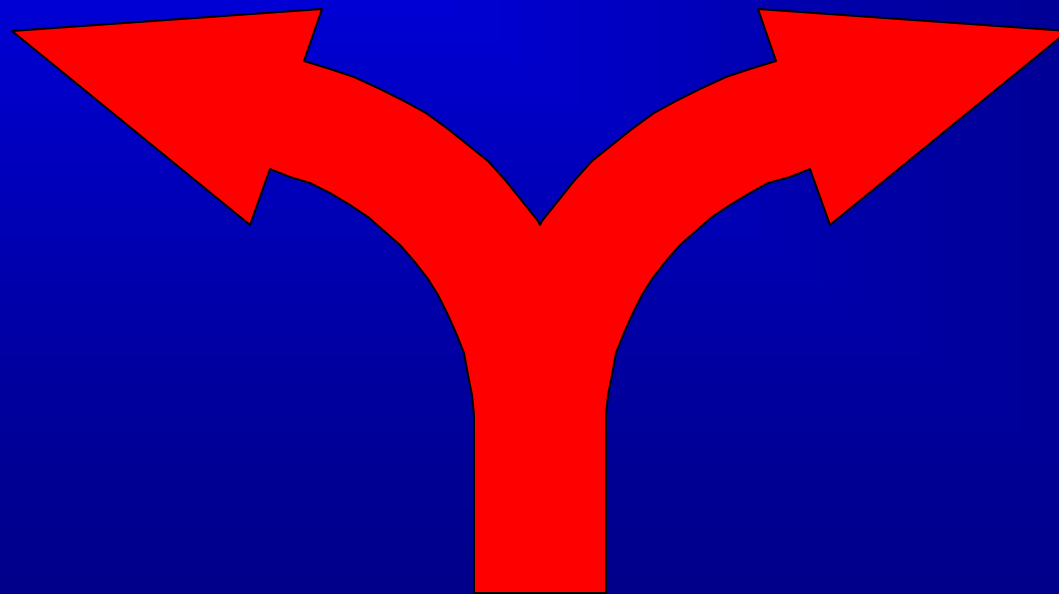
Customer-Driven?

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



Generic Grains

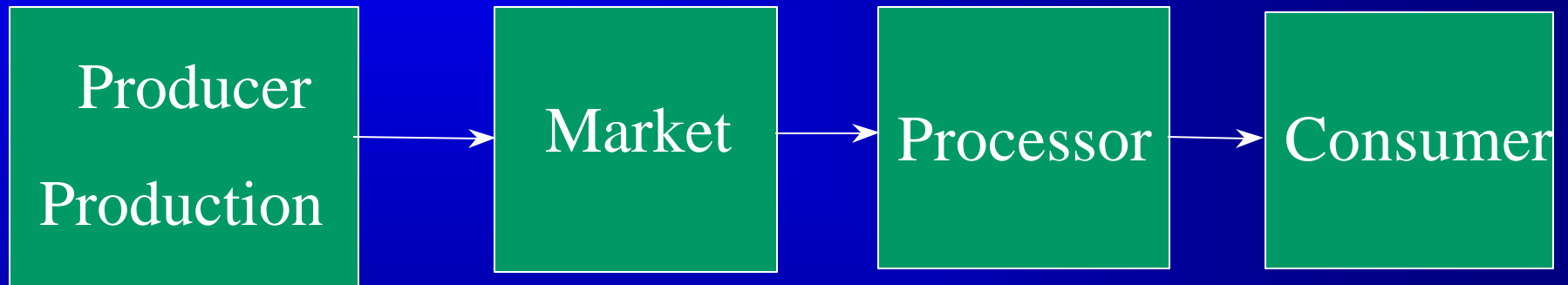
- Marketed Grains
- Segregated
- IP
- Contract
- Special Use



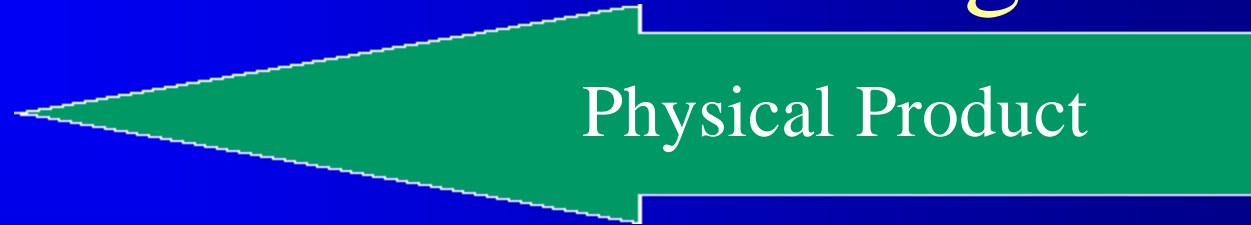
Commodity Grains?



Past Grain Paradigm



Present/Future Grain Paradigm



Consumer
Desires



Market:
•What I Want
•When
•How



Producer
Production



Yesterday our Customers looked like this.....

U.S. Grain Industry

State Grain Buying Entity

Consumer

Consumer

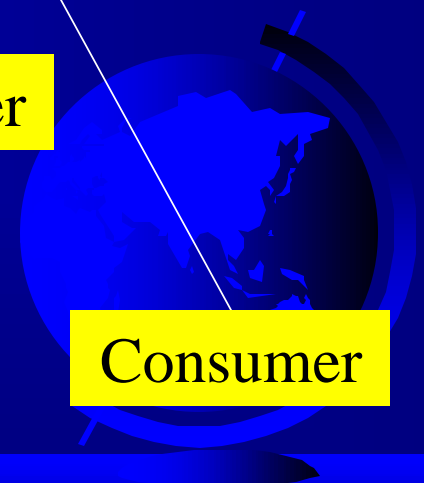
Consumer

Consumer

Consumer

Consumer

Consumer



Today our Customers look like
this.....

U.S. Grain Industry

Consumer

Consumer

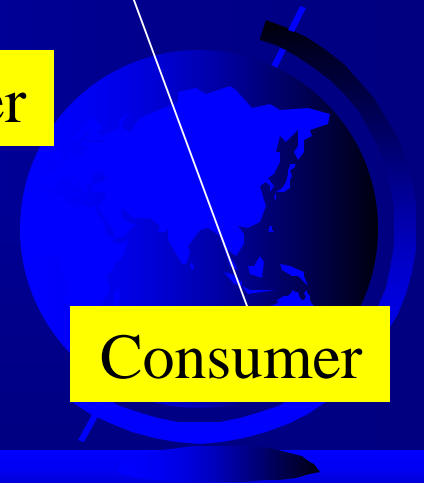
Consumer

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Consumer

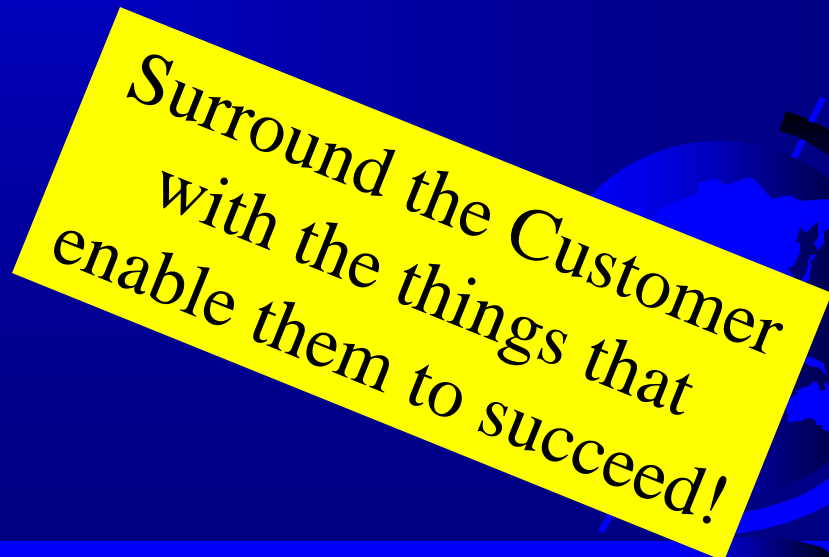
Consumer

Consumer



Buying Patterns Have Changed...

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



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

Consumer Driven

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

What is the power of a brand?



Supply Chain Management.....

Consistency

Operations

Transportation

Price

Process Verification

Specifications

Biotechnology

Supply

Risk Management

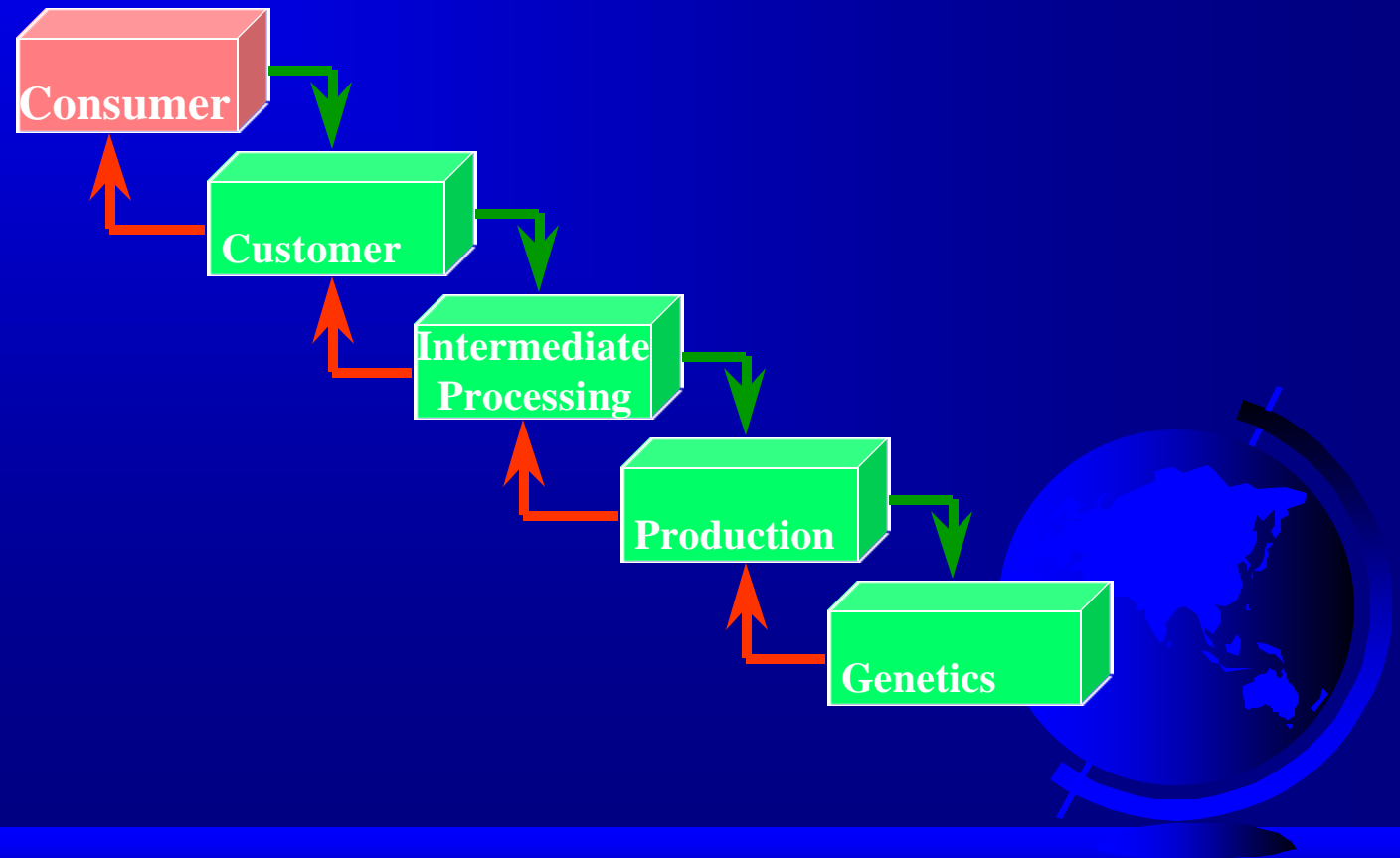
Technical Support

E Commerce



New Generation Food Production System

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



Process Verification

Consumer Preferences

"Safe"

"Healthy"

"Ready-to-Eat"

Wholesale / Retail

Distribution Channels

Category Marketing

Processing / Packaging

Consumer Preferences (e.g. Ready-to-Eat)

Niche Markets (e.g. Residue Free)

Grower / Producer

Specialty Crops

High Value Meat or Fish

Food Origination

Plant Genetics

Animal Genetics

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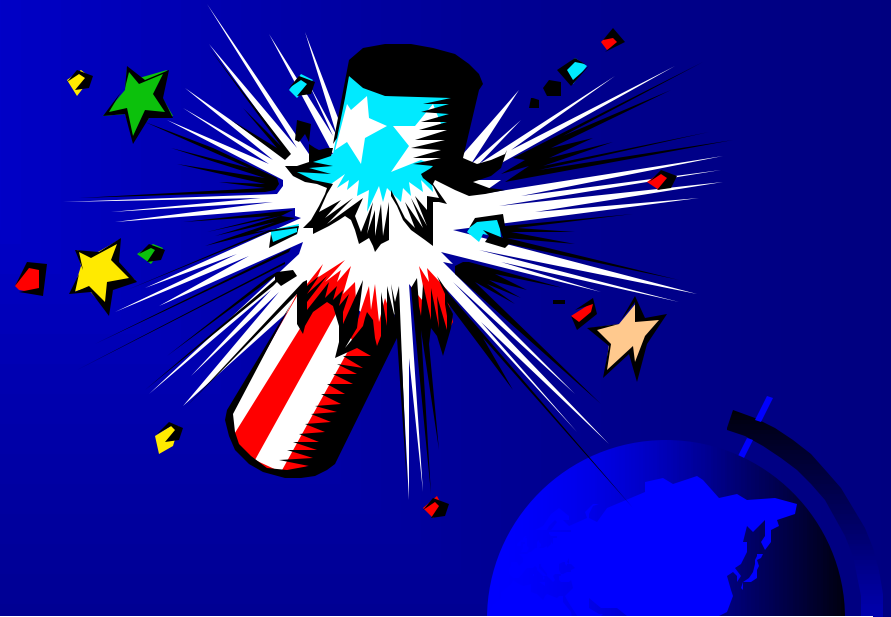
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An IP-based Food Production Model



Genetic Technology aka: “Biotechnology”

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



The opportunities are immense!

The Risk is Significant!

Biotechnology Prediction....

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



How it is done today!

Consumer

Processor

Exporter

Regional Grain Company

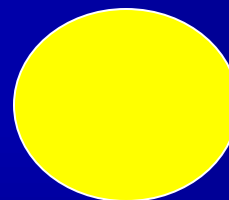
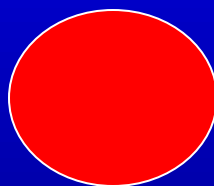
First Handle Elevator

Producer



(A Fragmented & Redundant Supply Chain)

Independence!

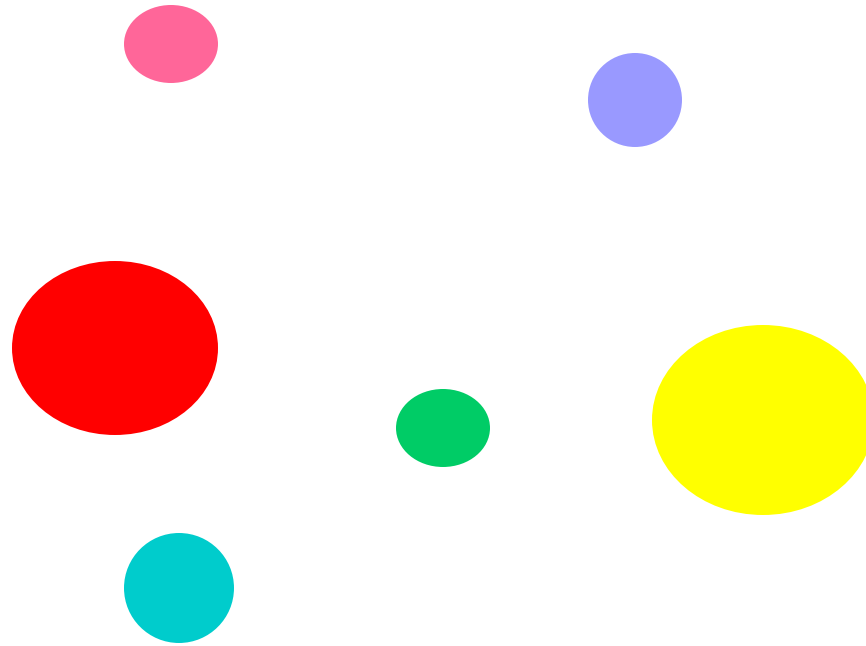


Interdependence!

Commonality:

- People
- Systems
- Processes
- Arbitrage
- Risk Management
- IP Systems
- Transportation
- Market Clout
- Asset Optimization

Grain Community



A central illustration of two hands shaking, representing a business agreement. The hands are rendered in a stylized, cartoonish manner with orange skin and dark blue suit sleeves. Above the handshake, there are two speech bubbles: a yellow one on the left and a green one on the right. In the bottom right corner, there is a blue globe showing the continents. The entire scene is set against a solid blue background.

Manage
Cost/Risk

Meet
Customer
Need

Result = Success!

How will we manage change?

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



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



Farmland®

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TRDaugherty@Farmland.com