

**FINANCING AND SUPPLYING INPUTS TO THE 21ST CENTURY
PRODUCER**

by

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Preface

The U.S. agricultural industry is in the midst of major structural change — changes in product characteristics, in worldwide production and consumption, in technology, in size of operation, in geographic location. And the pace of change seems to be increasing. Production is changing from an industry dominated by family-based, small-scale, relatively independent firms to one of larger firms that are more tightly aligned across the production and distribution chain. And the input supply and product processing sectors are becoming more consolidated, more concentrated, more integrated.

Agriculture in the 21st century is likely to be characterized by: 1) adoption of manufacturing processes in production as well as processing, 2) a systems or food supply chain approach to production and distribution, 3) negotiated coordination replacing market coordination of the system, 4) a more important role for information, knowledge and other soft assets (in contrast to hard assets of machinery, equipment, facilities) in reducing cost and increasing responsiveness, and 5) increasing consolidation at all levels raising issues of market power and control.

These profound changes in the agricultural industry present new challenges and new opportunities that require new ideas and concepts to analyze and implement. They require new learning and thinking. Some of those new ideas and concepts are presented here, not as empirically verified truths, but as “thoughts” to stimulate different and better thinking. They have been developed based on observations, analysis and discussions with numerous managers and colleagues in agribusinesses in North America and Europe. This series focuses on Financing and Supplying Inputs to the 21st Century Producer; companion series are also available on Farming in the 21st Century (Staff Paper 99-9), and Value Chains in the Food Production and Distribution Industries (Staff Paper 99-10).

Our purpose in sharing these “thoughts” is to invite discussion, dialogue, disagreement — in general to encourage others to develop better “thoughts”.

Keywords: technology platforms, agricultural finance, marketing strategy, input suppliers, grower segments, financial markets

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Future Challenges of The North American Food System

The North American food production, processing and distribution industry is in the midst of major structural changes. The most fundamental driver of these changes is globalization of the food and fiber markets. Assuming continued income growth in developing regions of the world like China and Southeast Asia, prospects for growing world food demand remain excellent. Consumer demands for safety, convenience, variety, and quality are important. Food industry demands for differentiated products, risk management, and efficient supply management solutions combined with a supply chain mentality are also major drivers of change. The government's role in trade policy, environmental regulations, food safety, land use, and intellectual property rights will continue to shape the markets. Biotechnology will offer new solutions to agricultural production problems, as well as open new markets for crops and livestock with specific output traits. At the same time, information technology will play a key role in facilitating a more coordinated food system.

Describing the future market environment is a formidable challenge, but five key features seem important. First, the market will be even more volatile over the next decade, making forecasting the future even more difficult. Globalization, changing government policy, rapid technological change, and input firms in transition will all combine to make for a business environment that will be more uncertain. A second key feature is rising standards on the part of every player in the food system. Every entity will demand higher quality and lower prices, better service, more information, greater flexibility, and quicker response.

A third feature is continued consolidation. The need for scale/size — will continue to drive consolidation across input industries at both the manufacturing and distribution levels. The sheer cost of developing, obtaining approval for, and introducing new products drives manufacturing firms to seek global market opportunities. In distribution, the economics of procurement and information management will lead to fewer, larger organizations. There will be an even more aggressive move to multiple location facilities, spreading the cost of accounting, inventory, regulatory compliance, equipment, administration, etc. across a number of sites.

The fourth key feature will be the drive for efficiency. Suppliers will work to add value and differentiate offerings, but in the current and expected competitive environment, even this is a challenge as any innovation is quickly copied and “commoditized”. There is enormous pressure on margins with the resulting emphasis on internal operating efficiency. This will lead to a search for linkages and a more coordinated system as finding cost economies increasingly requires system optimization.

Finally the fundamental issue of control of the system will result in significant new linkages between food firms, farmer/producers, and input suppliers with the full range of acquisitions, joint ventures, and contractual and partnering arrangements being used. A premium will be placed on alliance and partnering skills as organizations work to obtain the advantages of size without ownership, or seek access to resources unavailable within their own organization. The push for efficiency will drive more consolidation at every level. It will drive more linkages across inputs as input bundles which cut across traditional input industry boundaries are assembled to maximize productivity. And it will lead to stronger linkages across the food production/distribution stages to form vertically linked food chains. The ability to cultivate and manage alliance and partnering relationships will be fundamental to a successful strategic position.