

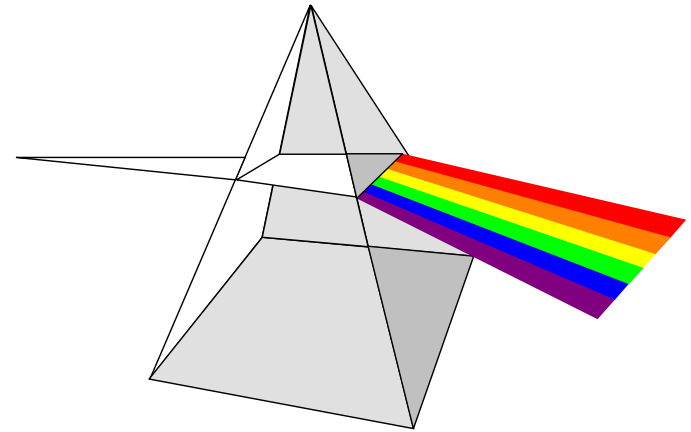
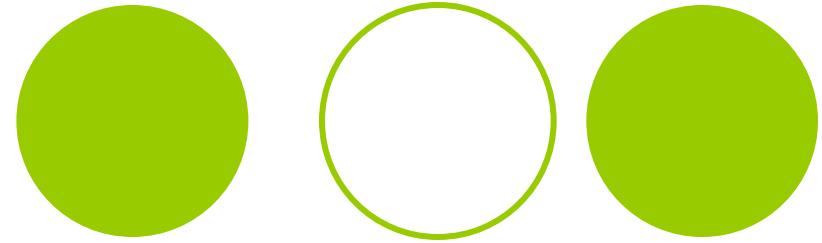
Agricultural Value Chains: What have we learned?

Chris Schroeder
Centrec Consulting Group, LLC

February 15, 2006

My Perspective

- Producer
- Land Owner/Manager
- Management Consultant
 - Agribusiness
 - Commodity Groups
 - Economics, System Dynamics, and Strategy



Discussion Flow

- Theoretical view of value chains
- Observations from our work over the years
- Opportunities for consultants

Key theme



“The ability to learn faster than your competitors may be the only sustainable competitive advantage”.

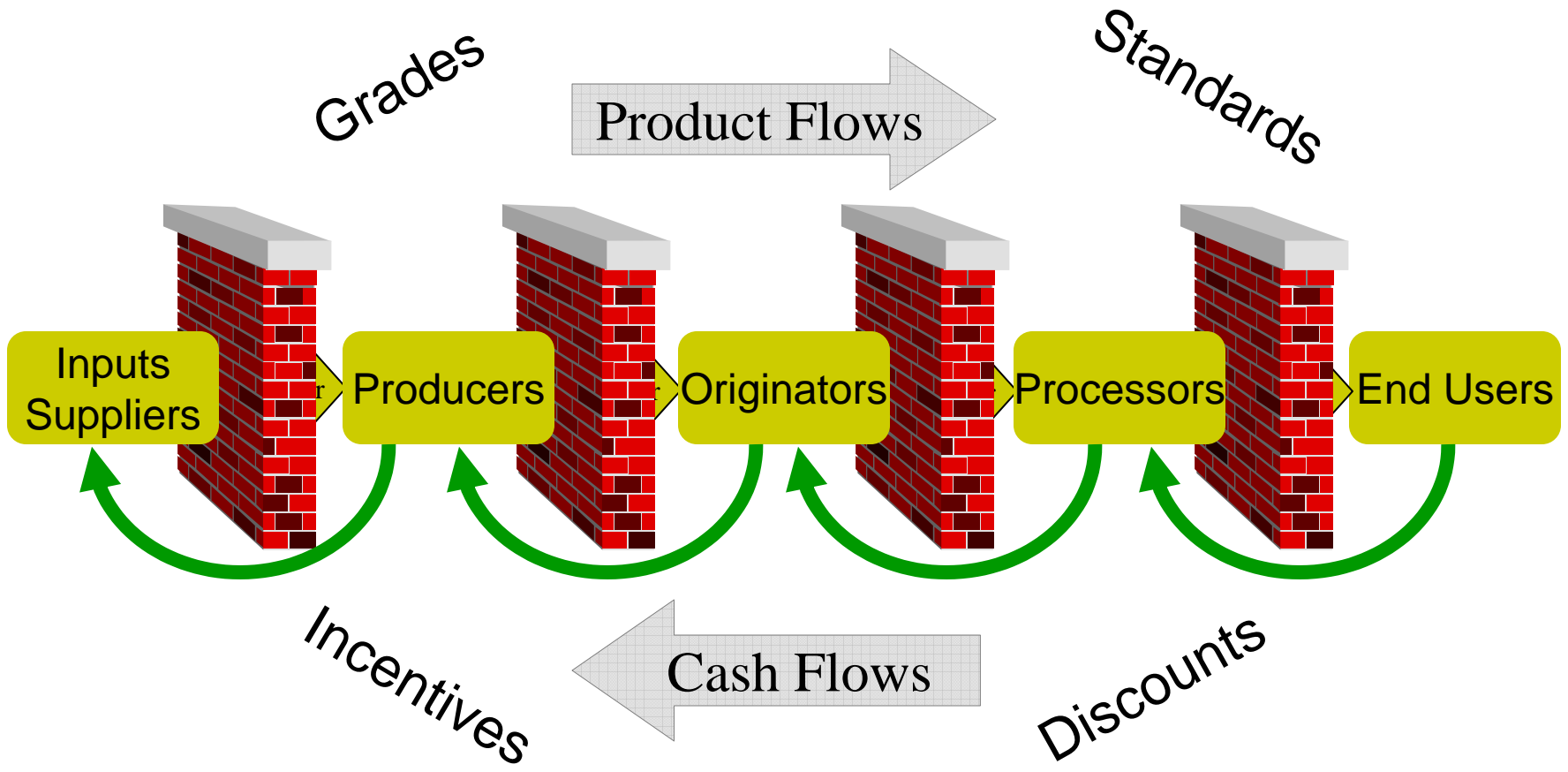
Arie de Geus

Alliance-Based Supply Chain - def

Consists of firms that participate in a vertically-linked organizational network and share a strategic vision centered on the objective of creating value within the network.

Traditional Supply Chain Relationships

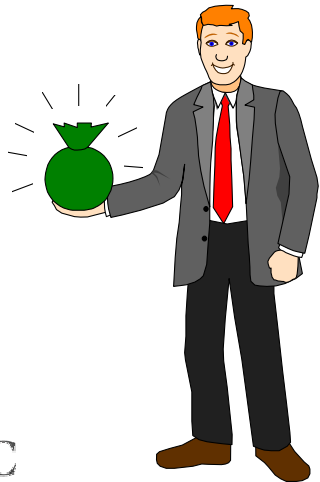
Theoretical View



The Consumer's Perspective

The consumer wants:

A product that perfectly meets their specific needs and at the lowest possible cost.



The consumer gets:

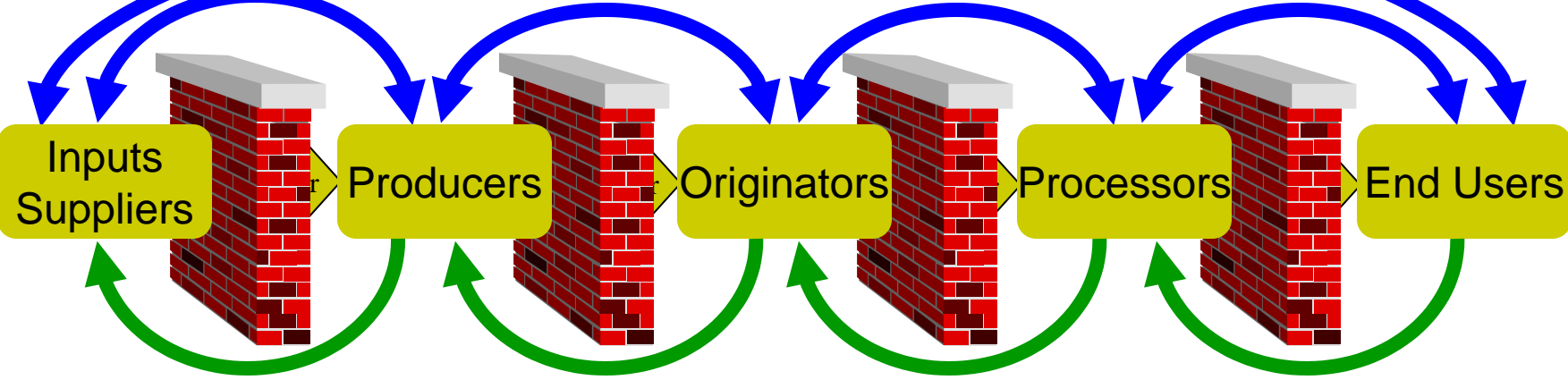
A product that is the result of a series of individual entities whose objective is to buy low and sell high.



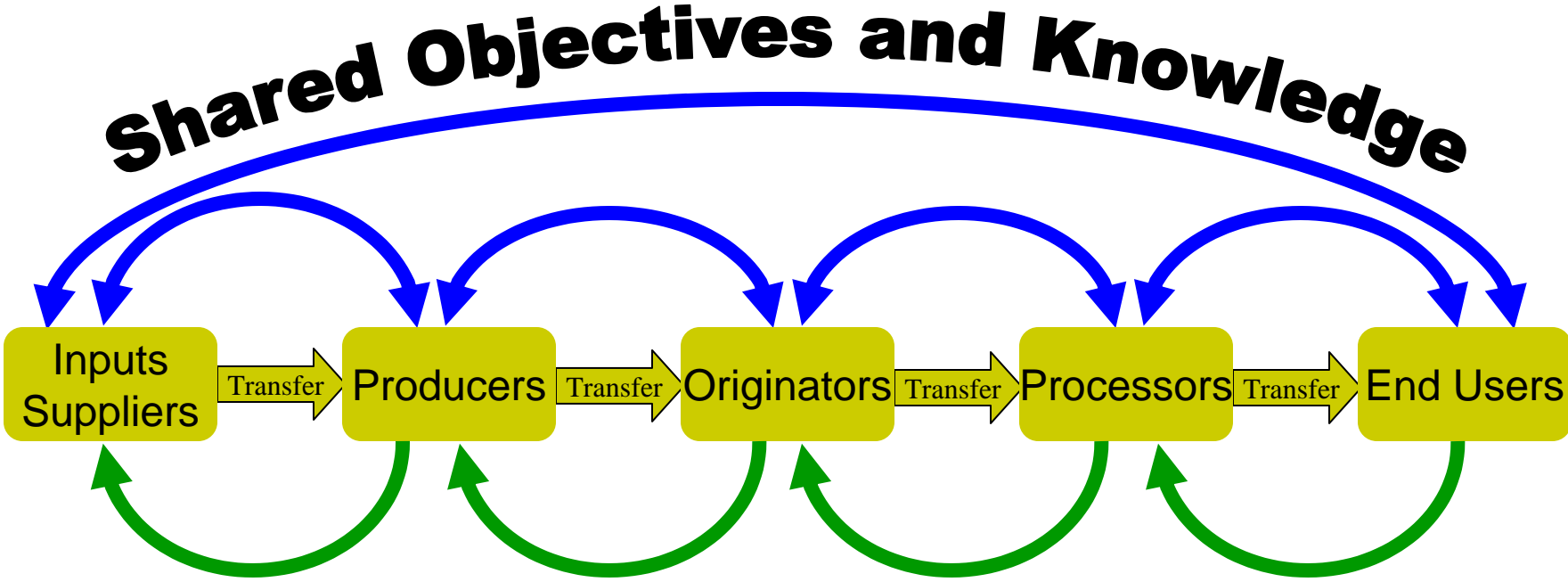
Theoretical View

Alliance-Based Supply Chain

Shared Objectives and Knowledge



Alliance-Based Supply Chain



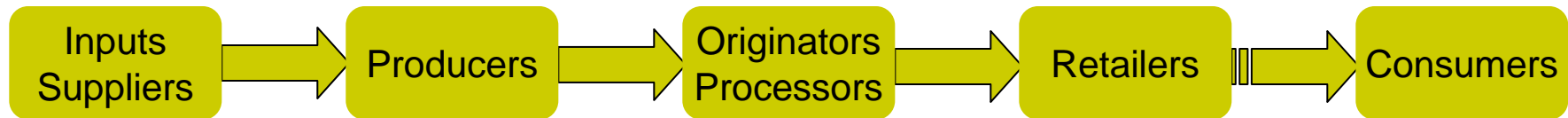
Drivers of the Need for Alliance-Based Supply Chains (opportunities)

Investments in new quality traits are extremely risky

Cannot risk losing access to markets

Excessive inventory represents a \$30 billion annual savings opportunity.

Out-of-stock products cost the food industry \$7-12 billion annually.



Inventory management

Raw materials consistency

60% of the cost of a typical product such as cereal, is transportation related.

ERS estimates food-borne disease costs at \$6.9 bil. per year.

Enablers Available to Create Alliance-Based Supply Chains

- New breeding and biotech capabilities
- Information technologies → networks
- Measurement technologies
- Automated controls
- Transportation & logistics
- Economies of scale

Impediments to Creating Alliance-Based Value Chains

- Long-standing behaviors
 - Focused between my brick walls
 - Lack of trust
 - Short-term perspective
- They take a lot of work
- They require new skills
- They introduce new types of risk
- Lack of specific models of success

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What we have learned?

- Have not realized the much anticipated panacea
- Change is constant
- Only a relatively few producers have been directly involved (though there is a lot of premium chasing)
- It is tough to describe it, but you will know it when you see it (Ron Brar)

Key Skills of Successful Value Chain Players at the Production Ag Level

- Understand customers needs
- Effective negotiators
- Long-run perspective
- Flexible and willing to change
- Realistic about how much value is really in the chain

Understand customer's needs

Anticipate needs and take the lead

○ Amazon does it



Customers who bought this DVD also bought

Paul McCartney - Live in Red Square DVD ~ Paul McCartney
Chicago/Earth Wind & Fire - Live at the Greek Theatre DVD ~ Jim Gable
Crosby, Stills & Nash - Acoustic DVD ~ Crosby Stills & Nash
Huey Lewis & The News - Live at 25 DVD ~ Huey Lewis & The News

○ ConAgra does it



...it is the cost of being able to stay in the game!

Understand customer's needs

- Figure out how to create “stickiness” with your customer
 - What can you offer that few others can?
 - Tangible – consistency, timeliness, quality
 - Intangible – knowledge, empathy, flexibility
- Be flexible and integrate with their world

Effective negotiators

- The notion is that we are all going to be “buddies” is largely false.
 - Organizations still need to meet their bottom lines and will be ruthless when they need to.
 - Don't get mad, leave yourself room to get even.

Effective negotiators

- Negotiation skills replace rigid terms
 - Everything is about serving the customer... while keeping your own options open
- There are many things to negotiate about other than price
 - Options, timing, access, variances
 - Discover what it is that they need and negotiate around that

Need to understand what really matters to your own bottom line

Long-run perspective

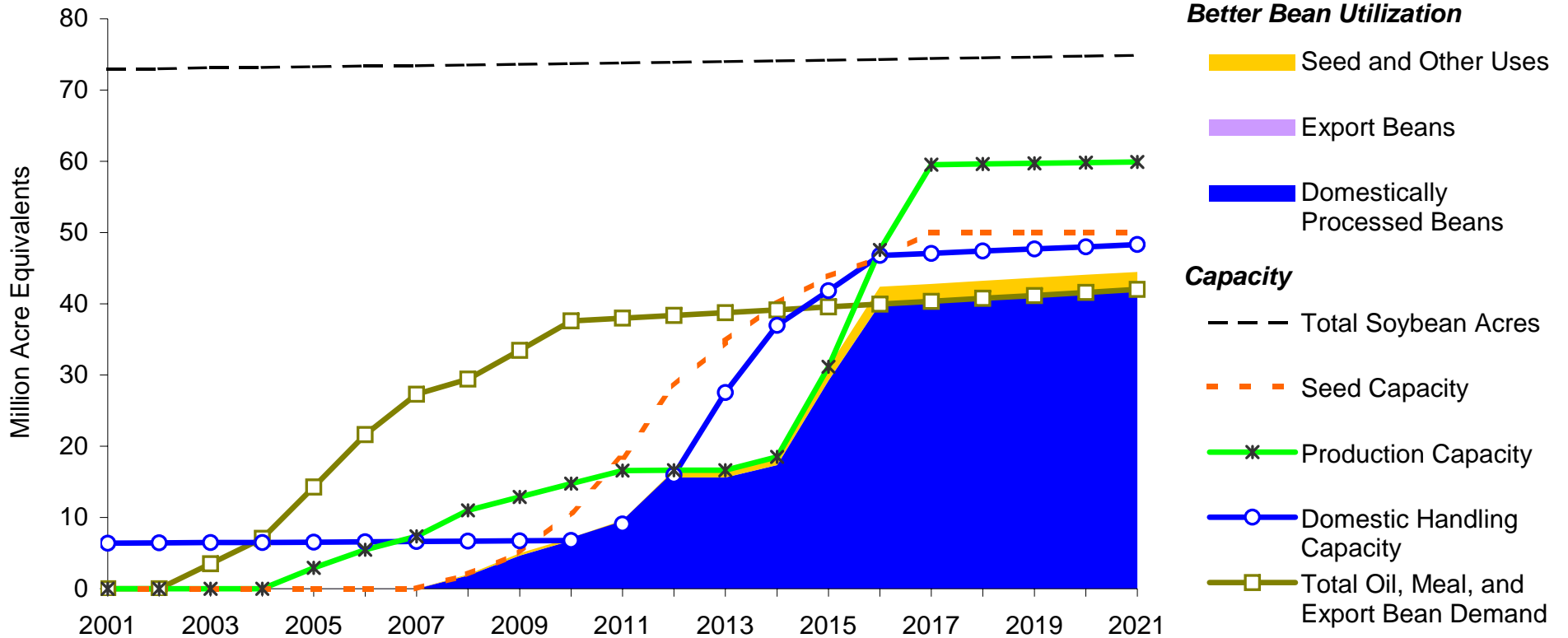
- Mental model is often one of “my new arrangement with value chain partners must make me more money with every transaction”.
- However, those who are successful tend to take a longer-term view and recognize that returns will accrue in due time.

Long-run perspective

Observations

Soybean quality enhancements

Better Bean Capacity Summary



Long-run perspective

- Good value chain partners are sustainable
 - Relationships require an investment
 - Works both ways
 - Buyers want to work with producers who are sustainable
 - Producers want to work with buyers who are sustainable
- “The world is a great place when markets are growing”

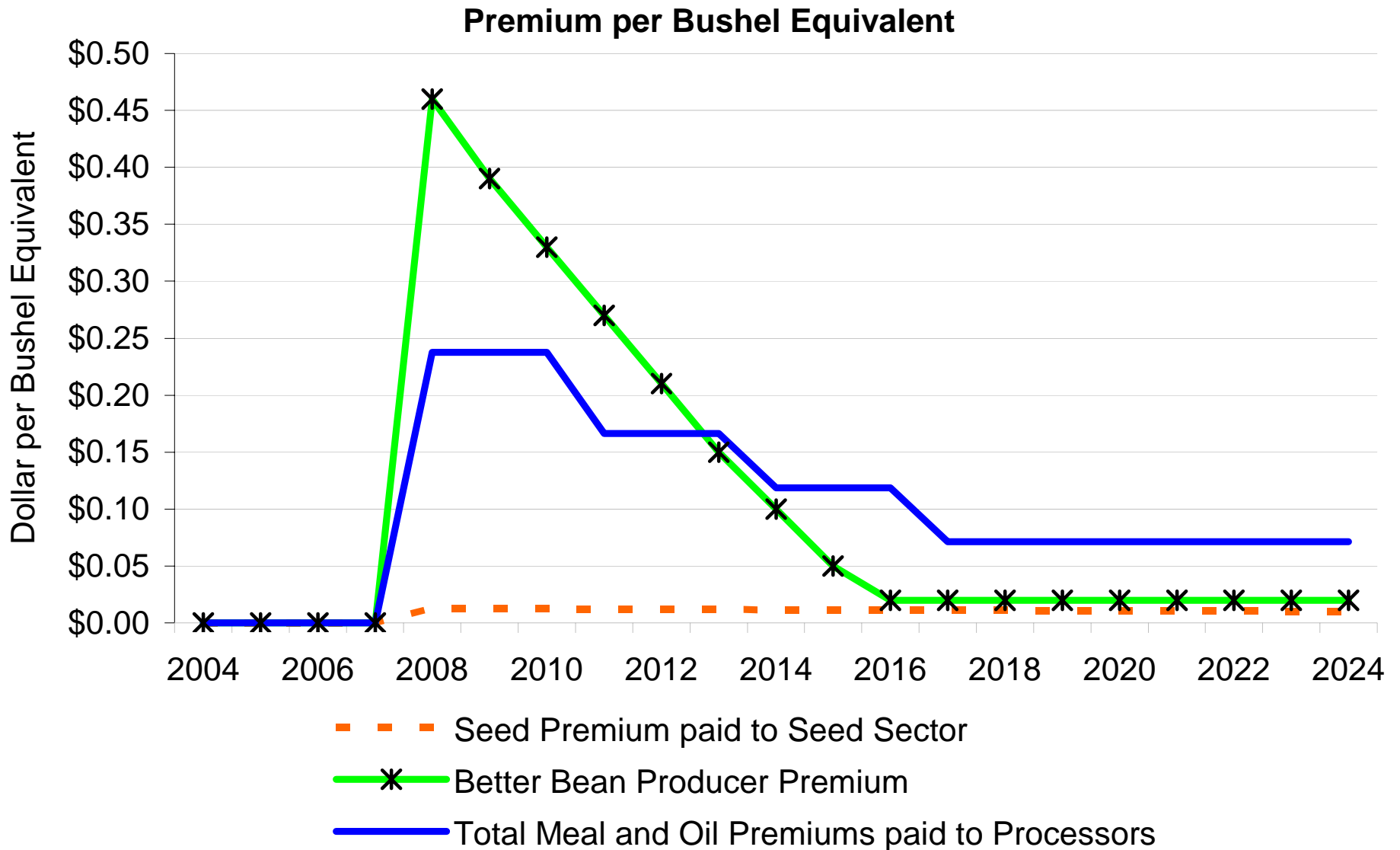
Flexible and willing to change

- The days of delivering the same thing for a career are over!
- Don't let geography be a constraint
- Understand when to let go

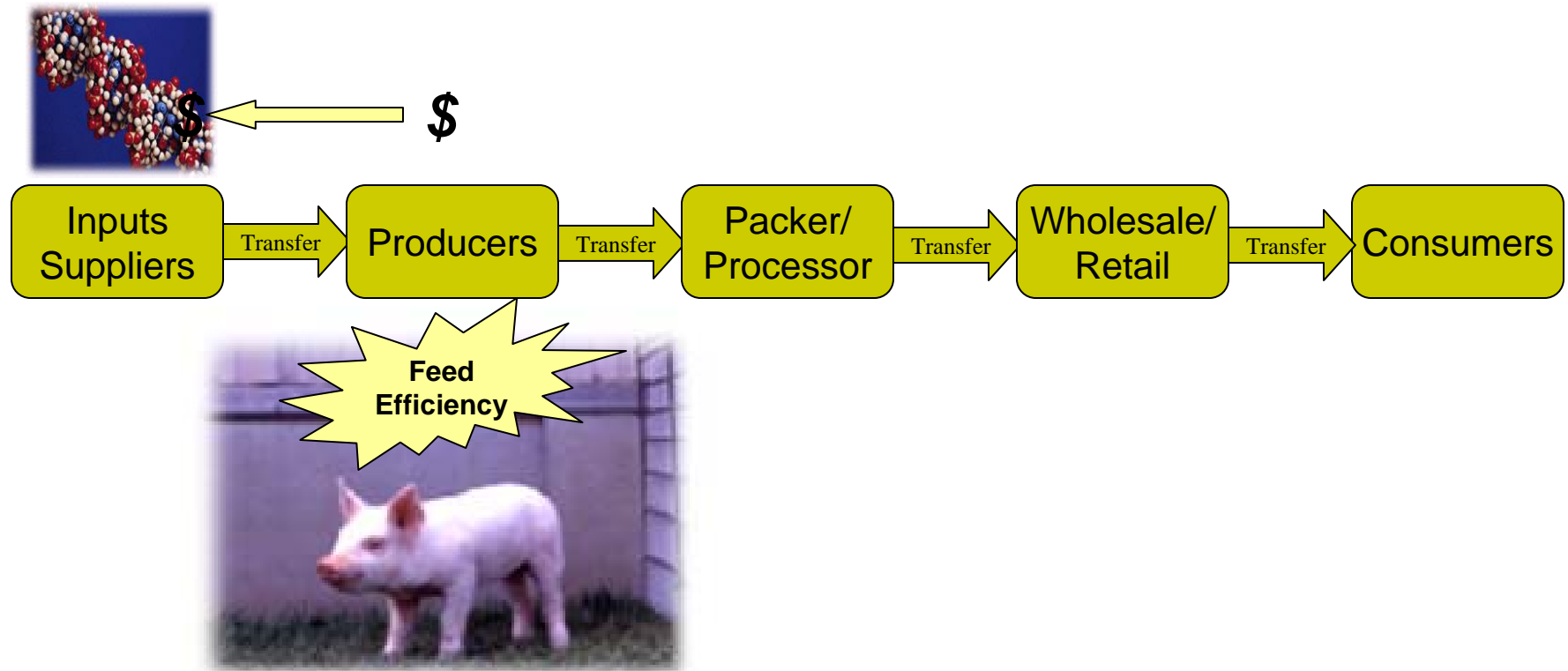
Realistic about how much value is in the chain

- How much is being created
- Who contributed to it
- How long it will last

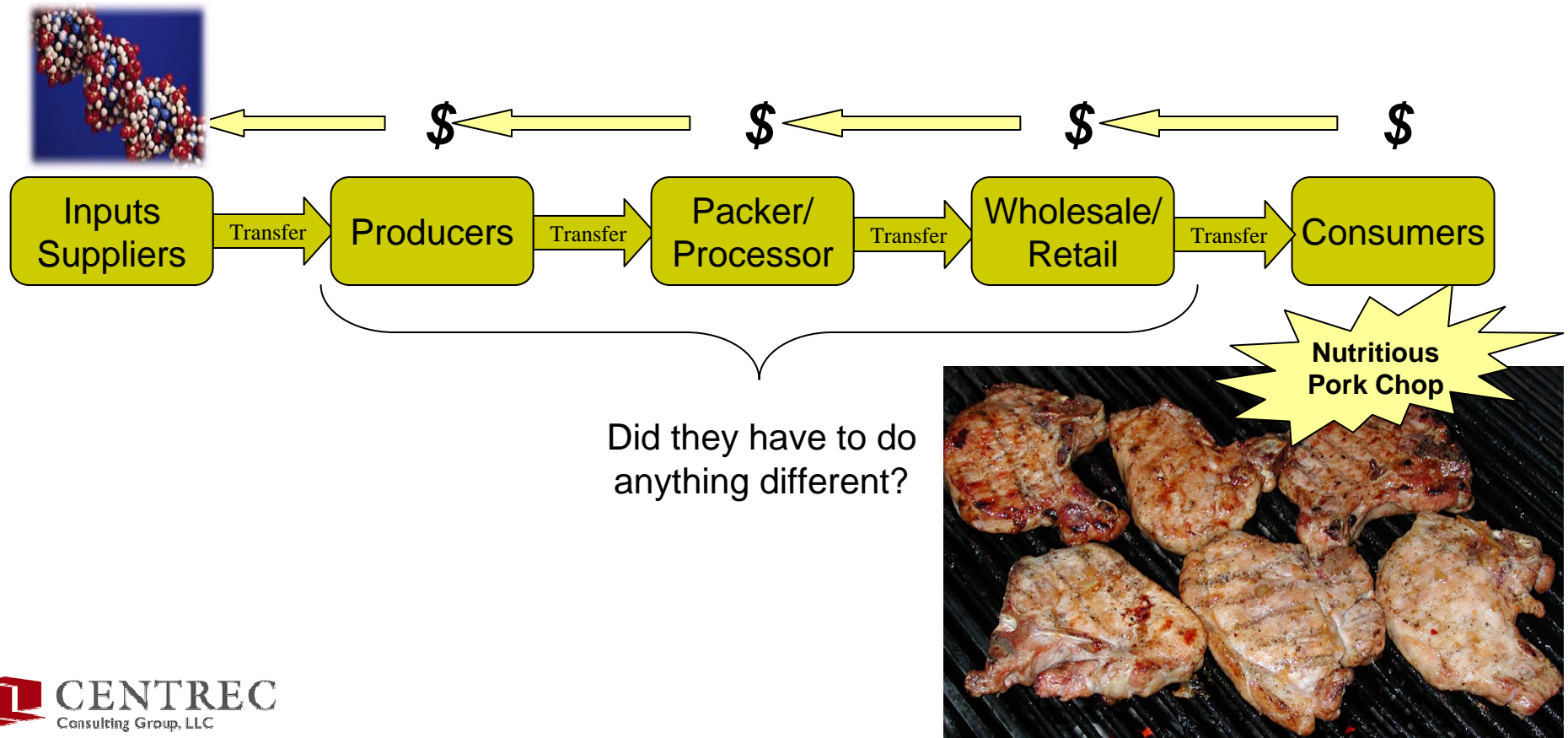
Realistic about how much value is in the chain – high ME soybeans



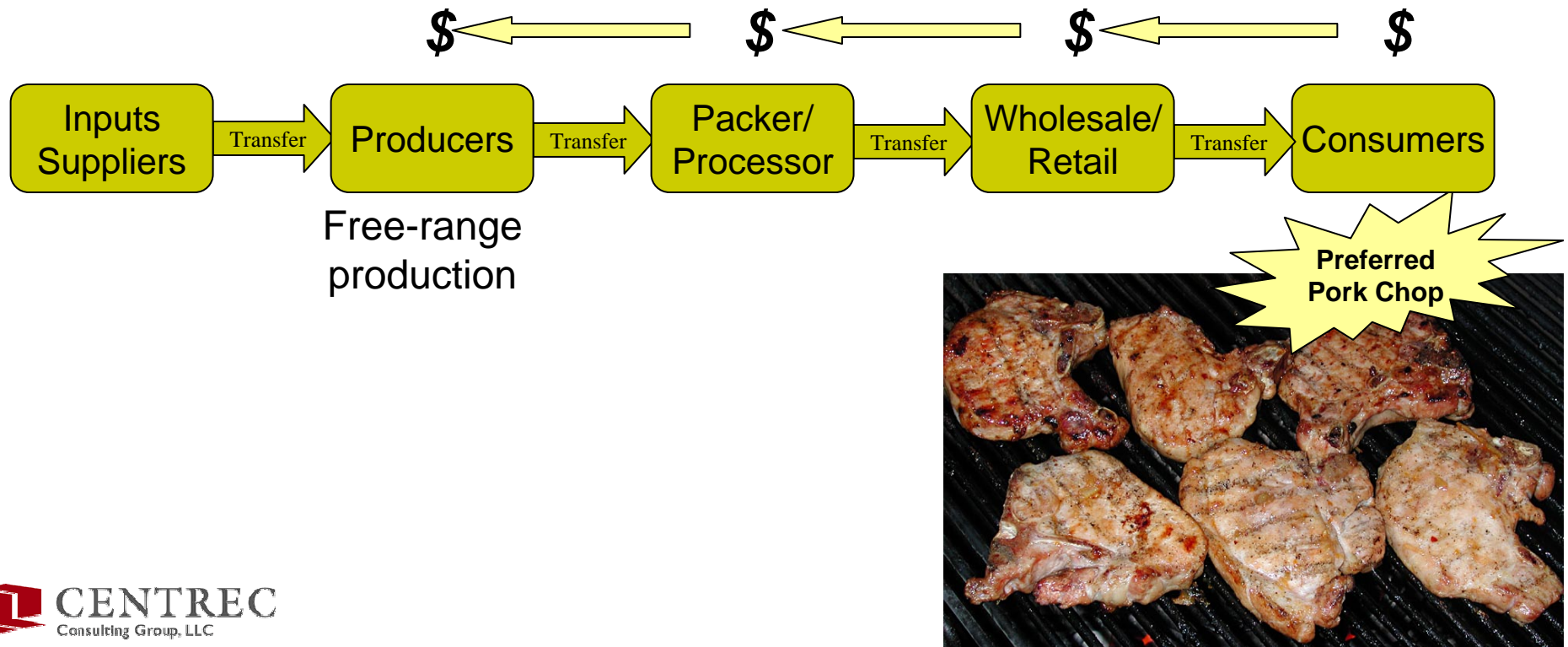
Realistic about how much value is in the chain – who contributed value?



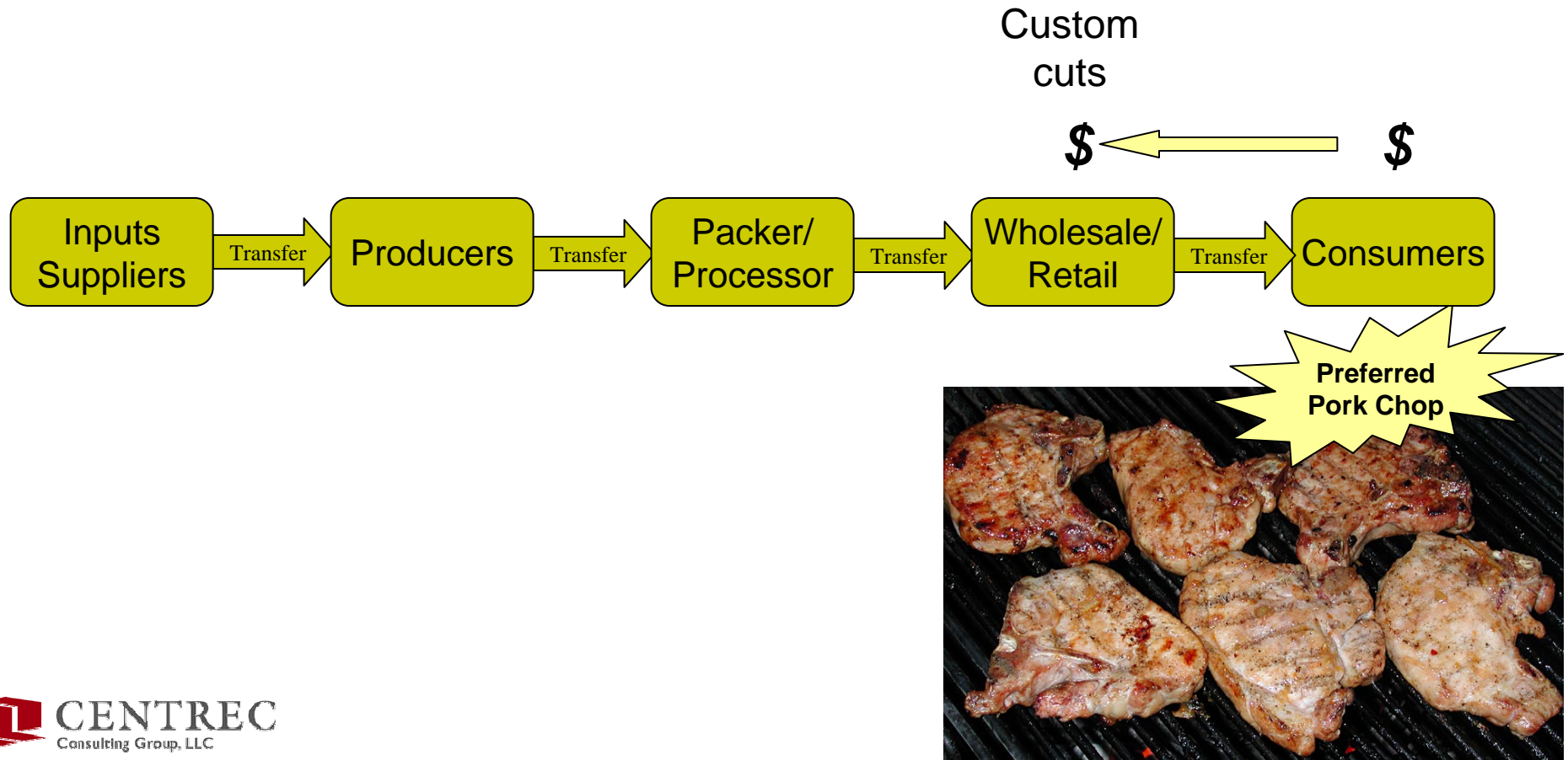
Realistic about how much value is in the chain – who contributed value?



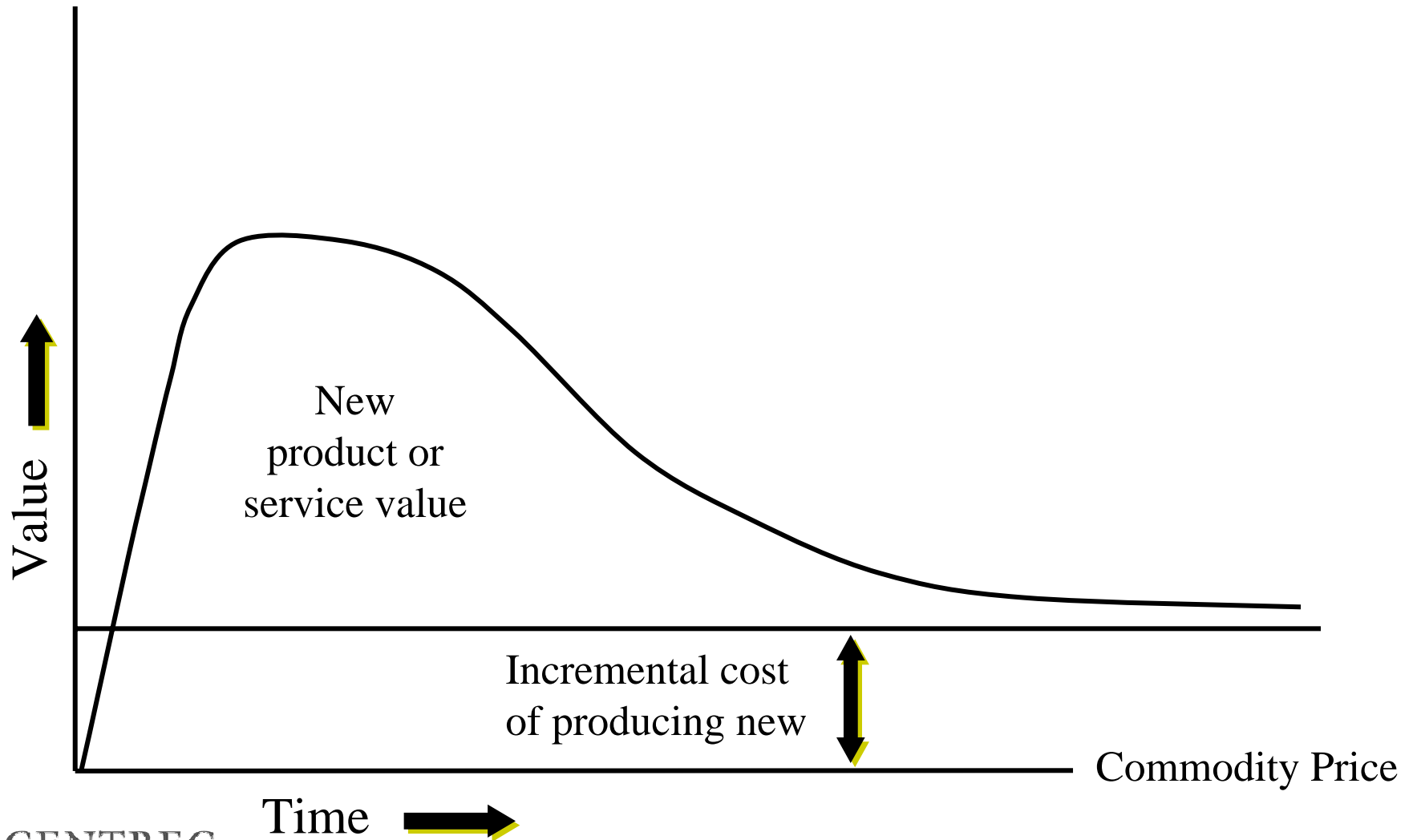
Realistic about how much value is in the chain – who contributed value?



Realistic about how much value is in the chain – who contributed value?

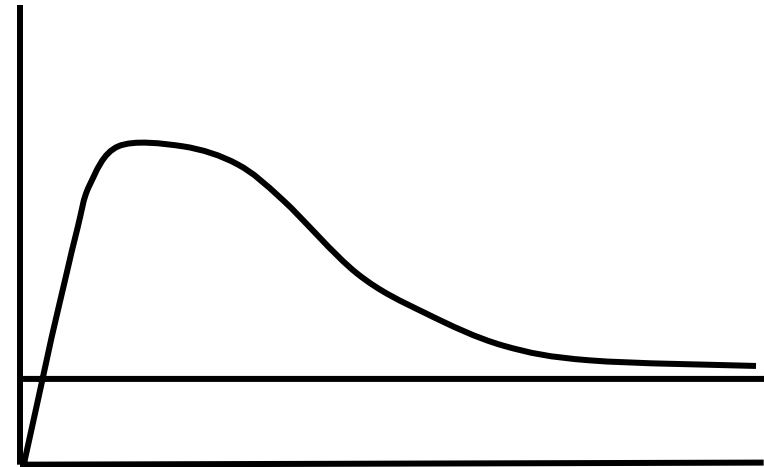


Realistic about how much value is in the chain – understanding value decay



Realistic about how much value is in the chain – causes of value decay

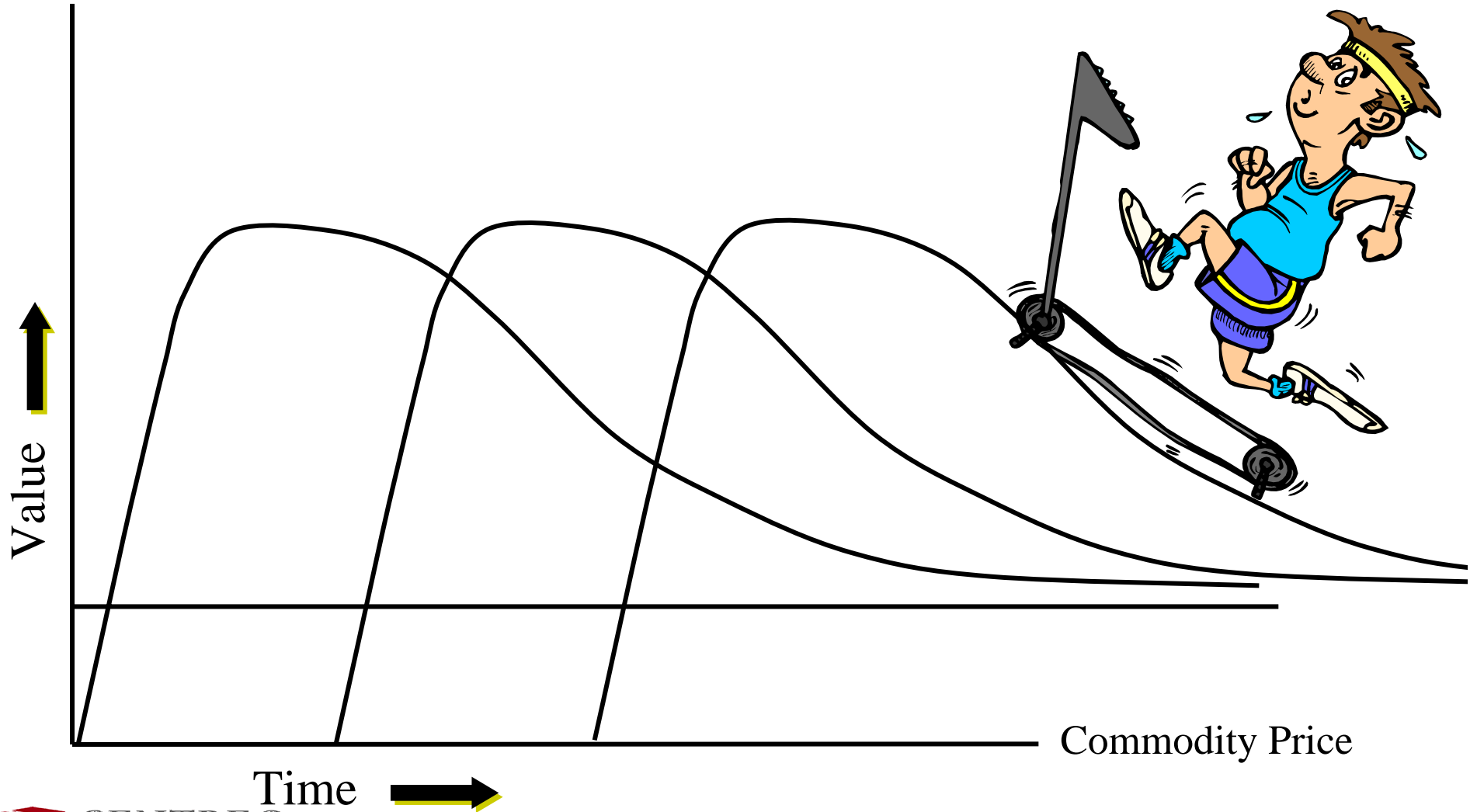
- Loss of property rights
(Roundup Ready)
- Substitution
(Fat for high oil)
- Replacement
(Bt corn)
- Commodization
(Loses uniqueness)
- Mitigation
(Downstream users seek alternatives)



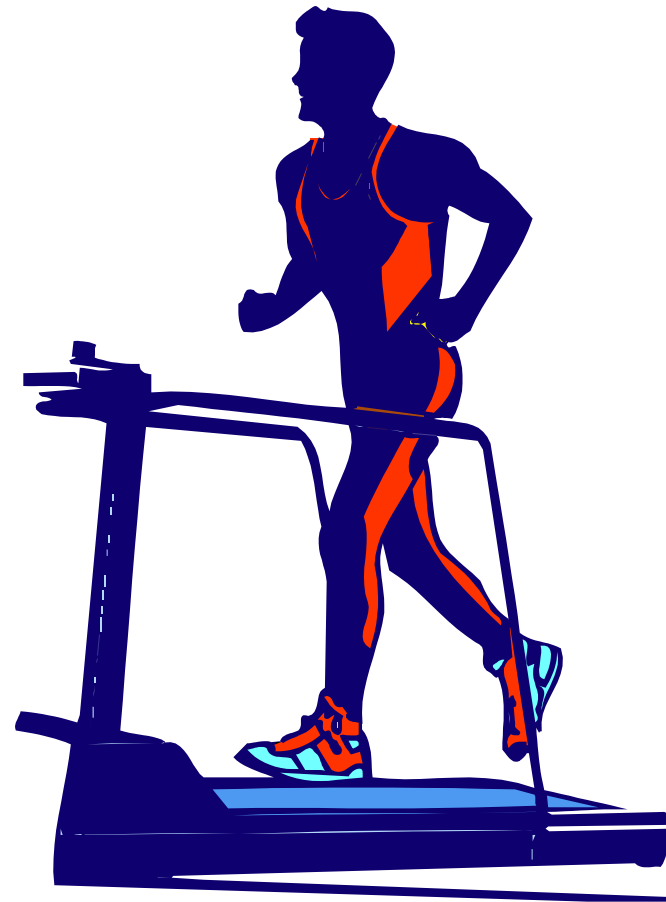
Strategy #1

Stay ahead of value decay

Observations



Must be conditioned to keep running on the treadmill

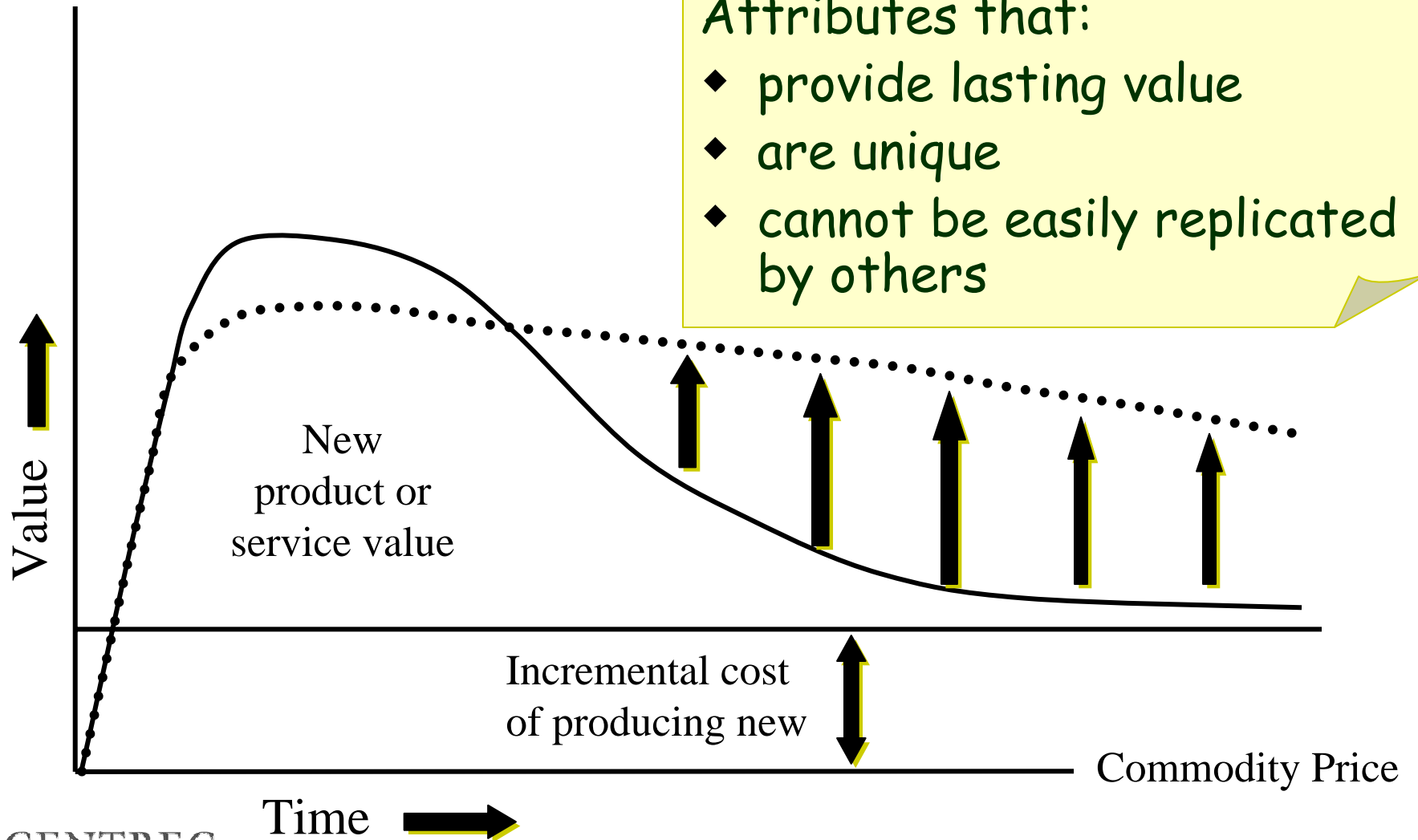


Strategy #2 create value with a longer decay

What will slow the delay?

Attributes that:

- ◆ provide lasting value
- ◆ are unique
- ◆ cannot be easily replicated by others

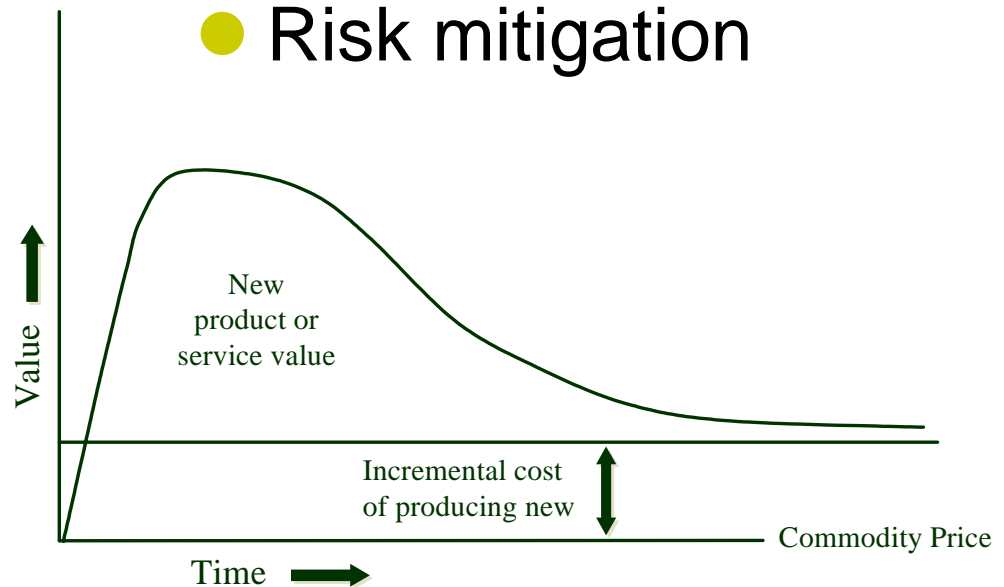


Strategy #2

Sustainable value attributes

Observations

- Information
- Knowledge
- Economies of scale
- Rapid response
- Flexibility
- Adaptability
- Client sensitivity
- Risk mitigation



Discussion Flow

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Key theme

Opportunities

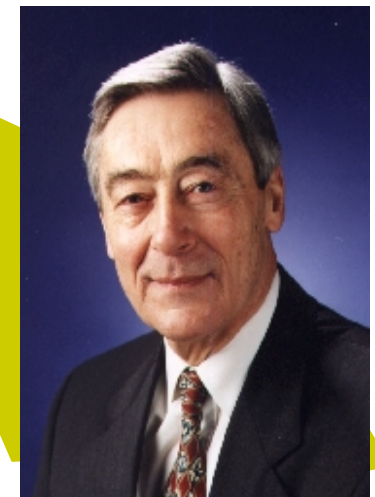


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Key skills for thriving in alliance-based supply chains

Understand how your strategies add value and continually work to learn faster than your competitor to identify new sources of value.



Recommended reading “The Living Company ” by Arie de Geus

Opportunities for consultants

- Help to learn faster than their competitors
- Help step back to see the big picture and understand value creation
- Help evaluate the long-term implications
- Participate in negotiations

Slides and related resources at: www.centrec.com
Select "Resources"

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