

OPTIMIZING OPERATIONAL EFFICIENCIES IN A GLOBALLY COMPETITIVE MARKET

What Does it Mean for Seed Companies?

By Kathleen Erickson and Betty S. Jones



What does optimizing operational efficiencies mean for seed companies today?

“It’s all about efficiencies,” said R.B. Halaby, chairman of AgriCapital, a New York-based investment bank for agribusiness with global interests. “The global dynamics in crop production will continue to require successful seed companies to improve their operational efficiencies.”

It is not new for global dynamics to have an impact on U.S. grain and seed businesses. However, the pressures are more intense today, and now agribusinesses are faced with significant pressure from capital markets in terms of having to satisfy investors.

“If you don’t satisfy shareholders, they move their money to a different investment,” noted Mike Boehlje, Ph.D., professor of agricultural economics at Purdue University. “If you can’t drive costs out of the system, you will likely be forced out or ‘capital-starved’ out.”

He said that today’s global dynamics require companies to take a reality check.

“You can think you are low cost, but really not be. Capital market pressures are being applied to every level because people who have changed their expectations about competitive rates on their capital own more of the value chain.”

Enhanced operational efficiency enables companies to be competitive, realistic and potentially more profitable, according to Halaby.

“Large and small companies alike that force themselves to focus on operational efficiency are those which will find the most

growth, benefit, and profit in 2005 and beyond,” he said.

STRATEGIC APPROACHES TO GAINING OPERATIONAL EFFICIENCIES

AgriCapital’s mission is to help agribusinesses cope with accelerating change. Its goal is to be equipped to provide its services creatively and professionally and with the highest ethical standards.

Those who compete successfully will attain operational efficiencies in two different ways, Halaby noted. The approach that has gained the most attention during recent years occurs through mergers and acquisitions. Companies build the critical mass necessary for global business in multiple sectors to share costs across markets or by linking research and development efforts to marketing. The other approach is to become small and lean.

“There are benefits to each approach for companies both large and small,” Halaby said. “But two critical questions remain for seed executives: how do I make it work for my company, meaning my customers, and where do I gain those efficiencies?”

There are essentially two strategies to increase efficiencies, Boehlje added. One is to lower costs and improve your margins. The other is to increase efficiency through the use of an asset base, and inventory management is not to be ignored in operational efficiency strategies.

“In the seed business, we see a tendency to focus on cost control, that is, how we can

lower costs in our organizations,” he said. “We can see it and watch it increase our bottom line. Too often, however, turnover ratio – an important measure – is overlooked.”

For the past two years, Boehlje has taught seed managers about operational efficiencies as part of the ASTA Management Academy.

“Seed companies can improve those operational efficiencies by increasing turnover ratios,” he said. “Doing so can even allow companies to get by with lower margins.”

John Crabtree, vice chairman for AgriCapital Advisors, said he has witnessed this situation with agribusinesses working to increase margins through their supply business.

“Some organizations have farmers who might be willing to pay a fertilizer or chemical price but not the application fee,” he said. “In response, I’ve watched a general manager put all of his equipment up for auction and keep his fertilizer prices more or less where they were. He basically said to the farmers, ‘if you won’t pay for it, I’m out.’ Many agribusinesses are not accustomed to the manager handling the situation this way. More typically, that manager is in the mode of ‘let’s just cover those costs with more volume.’ These are the old rules that probably no longer apply. Some of the innovative business leaders understand this, but most haven’t come to terms with it.”

ENABLING INVENTORY MANAGEMENT

While lowering all costs associated with doing business has been the typical means of gaining operational efficiency, many companies

are focusing on boosting asset utilization through better inventory management. Boehlje contends that seed companies need to ask the hard questions and face often equally difficult answers.

“If you reduce inventory, might you risk losing a customer?,” he asked. “The consideration must be made if it’s worth losing that customer . . . and it may be!”

Improved turnover took on a new meaning for Emergent Genetics in 2003 when they set a new packaging standard. They changed the packaging of Stoneville® and NexGen® brands of cotton planting seed from 50-pound bags to 230,000 seed count units. In doing so, Emergent Genetics became the first cotton seed company to offer seed count packaging. Bulk packages were also offered and contained 8.05 million seeds, or 35 units of 230,000 seeds.

“For several decades, we sold cotton seed in 50-pound bags,” noted Don Threet, vice president-U.S. Business Operations of Emergent Genetics. “This bag size was established by default long ago when the industry decided that the 100-pound bags it had been using for commodity cotton seed were too heavy. But today, better quality planting seed and

equipment advancements have enabled growers to considerably reduce the amount of seed they plant per acre, resulting in a very precise planting density. Additionally, seeds per foot of row have replaced pounds per acre because of significant quality advances in today’s cotton planting seeds. Just 10 years ago, before transgenic cotton, growers would talk about planting 15 to 20 pounds per acre. Those same growers will now tell you that they plant seeds per foot of row or cotton plant population per acre. So we need to sell them seeds instead of pounds.”

Threet said that knowing seed counts enables retailers and growers to improve inventory management by ordering the exact number of bags they need. From an internal business perspective, this type of inventory management helps minimize tied up cash flow resulting from excessive inventory. Fewer extra bags in inventory reduces the risk of damage and loss during loading and storage.

But Threet said the benefits of seed count packaging extend to his growers and distributors. By adding value that enhances their operations, the benefits offer a ripple effect.

“Seed count packaging enhances growers’ planning and management accuracy, and

eliminates the need to convert pounds to seeds,” he concluded. “Knowing exactly how many seeds are in each bag, coupled with the desired seeding rate, allows growers to order exactly what they need, thereby assuring they do not buy too much or too little of the elite brand varieties they want and need.”

This is part one of a two-part series on operational efficiencies. Next month’s article will explore innovative approaches companies have taken to differentiate themselves in the marketplace while optimizing operational efficiency.

Kathleen Erickson is president of Erickson Communications & Consulting, LLC, Clarks Hill, Ind. Betty S. Jones is associate director for the Center for Food and Agricultural Business at Purdue University, West Lafayette, Ind.



LearnMore!

For more information related to this article, go to www.seedworld.com/lm.cfm/sw020504

PRODUCT SPOTLIGHT



BONBON (F1) WINTER SQUASH

An outstanding Winter Squash of the Buttercup type. Large, uniform squashes are sweet and delicious. Good adaptability and upright plant growth. 2005 All-America Selections Winner bred by Johnny’s Selected Seeds.

Johnny’s Selected Seeds www.johnnyseeds.com

Paid Advertisements



WHOLE GRAIN NEAR INFRARED ANALYZER INFRA LUM FT-10

InfraLUM FT-10 FT-NIR Analyzer is a multipurpose near-IR (8500-14500 cm-1) FT spectrometer, which is designed for non-destructive analysis of germination rates for seeds and basic components of food products, such as proteins, fats, moisture, sugar, starch, fibers, and salt in grains and feed mixes. The analyzer is controlled by SpectraLUM/Pro software, which enables it to carry out routine analysis in a simple dialog mode.

Lumex International LLC www.lumexint.com