

# Distribution & Product Differentiation

## IMPACTING OPERATIONAL EFFICIENCIES IN A GLOBALLY COMPETITIVE MARKET

More than two millennia ago, Plato stated that “necessity is the mother of invention.” For agribusiness firms involved in field crops, and particularly soybeans, this old axiom bears new relevance to an increasingly competitive marketplace worldwide.

“The global, competitive pressures from South America indicate a change in attitude for companies that want to compete,” said R.B. Halaby, chairman of AgriCapital Corporation, a New York-based investment firm. “But finding operational efficiencies is a challenge for many companies that feel stripped down to bare bones, particularly after the mergers, acquisitions and corporate structure changes of the last decade.”

### GLOBAL COMPETITION REQUIRES DISTRIBUTION EFFICIENCIES

“Look at our global agri-marketplace,” Halaby said. “South American soybean production already outpaces U.S. production. There is relatively flat production here. Competition is compounded by the fact that places like Brazil, Argentina and Poland are now building infrastructures to provide efficient distribution channels. South America, for example, is building new distribution and transportation systems along the Amazon, which can bring ocean-going barges further up this river than the Mississippi.”

“Does the U.S. close up shop or find ways to compete?,” asked Dr. Michael Boehlje, professor of agricultural economics at Purdue University. “One way to compete is to wring costs out of production and distribution systems. Land and production input costs have some potential for reduction. In addition, we need to look at the U.S. distribution channel,

which includes origination, transportation and logistics costs.”

### WHERE AND HOW WE COMPETE

John Crabtree, vice president of AgriCapital Advisors, recalled a discussion with a general manager of a co-op with half a dozen grain locations in Iowa.

“I talked about cutting costs and he talked about increasing margins,” he said. “It’s all about the bottom line. To compete, we see grain cooperatives putting together consortiums of other cooperatives that have multiple locations. Together, they could form a separate, single grain business and negotiate freight costs in order to generate more margins.”

“We need to realize that it takes a significant number of firms to reduce costs before we can have an impact on the total cost structure of an industry and consequently, help the U.S. become more globally competitive,” Boehlje added. “We need to reduce costs for individual organizations to survive in the value chain. But how much that is going to contribute to global competitiveness in the industry depends on how important that activity is in the value chain.”

### DIFFERENTIATION STRATEGIES

“How do U.S. companies squeeze more efficiency out of a system that lives on some of the highest priced land in the world?,” asked Lynn Clarkson, president of Clarkson Grain of Cerro Gordo, Ill., which markets organic and conventional grains and oilseeds. “I don’t know how to do it other than through differentiation.

“Differentiation can occur when we are

ready to understand and serve the specific market that makes us more effective at what we do. Global competitiveness for U.S. companies depends on differentiation done well and smart. It’s a global issue because it’s a global marketplace.”

“Increasingly, we find differentiation to be as much the services and management support that surround a product as well as the product itself,” Boehlje added. “Beyond improving margins through cost control and turnover, differentiation offers companies another way of improving profits. Differentiation enables us to get better margins through pricing. You have to do what you do distinctly better and differently than anyone else to stay ahead of the pack.”

“Once we differentiate, U.S. companies can focus on solving a problem for someone outside of the commodity world, and in such a way that it neutralizes the advantage of capital,” Clarkson noted. “Differentiation requires a company to regard itself as surfer, not as a fixed business. You can take your core values with you, but always be on the lookout for new opportunities. In product differentiation, it’s critical to know your neighbors. As this is global agriculture, your neighbors are determined by freight charges, not geographic proximity!”

### INNOVATION, DIFFERENTIATION, PREMIUM PRICING

Halaby said differentiation in the seed industry requires companies to adopt an entrepreneurial spirit to effectively, aggressively differentiate themselves and their products and services.

“The ability to differentiate comes as a package of services and distinctive values

that surround the commodity a company produces," he said.

"We know we have limited pricing power," Boehlje noted. "But if we approach our business from the differentiation standpoint, we're not tied to thinking about producing a commodity, where the only lever that can be pulled is cost reduction. With differentiated products, we have a second lever that can be pulled through premium pricing.


"When a differentiated product or service is one my customer wants, I can price it at a little higher margin than I would otherwise because no one else can do what I do, or it's harder for them to do."

### MAKING AN IMPACT

Halaby and Boehlje agree that it will

take a significant number of U.S. firms to reduce costs before they can have an impact on the cost structure of the U.S. industry and consequently, help it become more globally competitive.

"As Brazil, Poland and other places develop better distribution channels, there is a question of whether they will have a relative or comparative advantage in commodity production long term," Boehlje said. "If so, the U.S. may have a relative advantage on the differentiated product side. But to be more effective with differentiated product production, the U.S. will have to reconfigure its distribution channel to be able to handle a variety of products in an identity- preserved and traceable system. Whether it's through

margins, turnover or differentiation, we need to have increased efficiency to compete in today's agriculture." 

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## COMINGS & GOINGS

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**budget**, which would cap the amount of federal subsidies collected by a farmer at \$250,000 a year, down roughly 30% from the current cap of \$360,000 and close loopholes that have allowed some large farming businesses to collect millions of dollars in subsidies a year, reported *The Wall Street Journal*.

The 2005 budget for the **European Union's Common Agricultural Policy** was adopted on Jan. 12. EUR 49.7 billion (bn) has been allocated, representing an increase of EUR 2.9 bn since 2004. This increase is mainly due to the impact of the 2003 CAP Reforms and 2004 enlargement, adding roughly EUR 1.3 bn and EUR 1.4 bn respectively to the budget. However, the total of EUR 49.7 bn is EUR 777 million less than the European Commission's forecast needs.

The U.S. Environmental Protection Agency drafted a proposal on conducting periodic reviews of **pesticide registrations** every 15 years, which was issued in the Feb. 2 *Federal Register*.

USDA requested comments in the Feb. 1 *Federal Register* on the **National Organic Program procedures** to make them clearer to the public.

The **Taiwan government** is planning to set up a NT\$30 billion **biotech investment seed fund** to attract private venture capitalists and major corporations, reported CheckBiotech.org on Feb. 4.

On Jan. 28, the U.S. notified the **World Trade Organization** of its intent to withdraw certain tariff concessions because it has not reached agreement with the European Union over access to its **rice market**.



### PRODUCTS

**Advanced Biological Marketing** introduced on Dec. 16 **America's Best Inoculant Plus 30** for soybeans. This product is a liquid additive that extends the post-inoculation planting window up to 30 days, even with some fungicide and insecticide combinations. The product works with the liquid formulations of America's Best Inoculant and other soybean inoculants.

**America's Best Inoculant**, marketed by **Advanced Biological Marketing**, showed a significant yield increase of 2.8 bushels per acre

over the untreated soybeans, the company said on Jan. 31. At \$6.50 per bushel, the income increased by \$18.20 an acre using this inoculant.

**Pennington Seed** announced on Jan. 6 that its third Super Bowl field was harvested from several acres of its **Princess 77 hybrid Bermuda grass**. The Super Bowl XXXIX field, featuring Princess 77, was over-seeded last fall with a special mix of Pennington's perennial ryegrasses and blue grasses for added durability, responsiveness, and rich green color.

For the 2005 growing season, corn producers will have access to new base genetics from 16 hybrid families advanced by **Pioneer Hi-Bred International, Inc.**, the company said on Jan. 14. Pioneer combined these new genetics with insect- and herbicide-resistance traits to advance a total of **40 new corn hybrids** for 2005. These new hybrids combine exceptional yield potential with solid agronomics, insect protection and herbicide resistance. This brings a total of 290 Pioneer® brand corn products to North America in 2005.

On Jan. 18, **Spiroflow Systems** introduced a new **Type 5 Bulk Bag Discharger** with the ability to discharge powder material in problematic height-restricted areas where the raised forklift frame is higher than actual heights.

**Strategic Diagnostics Inc.**, a leading provider of antibody products and analytical test kits, announced on Jan. 12 the release of its new **Roundup Ready® soybean test** to detect the use of unauthorized herbicide-resistant soybeans in Brazil.

On Feb. 2, **Syngenta** introduced flexible, grower-friendly crop protection programs for growers who plant corn hybrids containing the **Agrisure™ GT Advantage** trait for glyphosate tolerance. The trait will be available in select hybrids offered by NK® and Golden Harvest® brands in 2005.

Syngenta announced on Jan. 17 that its leading fungicide **BRAVO®** received full registration for use on wheat in Germany. BRAVO® offers farmers a unique solution for controlling the fungal disease Septoria, including strains that other treatments do not fully control.

**Unique vegetable colors** are becoming more common with choices

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