

Ag financier sees opportunities for those structured to change

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NEW YORK, N.Y. — Change does not often happen linearly but, more usually, via challenging curves that force people who are not prepared to duck — rather than seize — the moment, according to an agribusiness financier here.



Rurik B. Halaby

"Life often throws you a screwball... and you have to be ready, you have to be structured, to hit it," noted Rurik B. "R.B." Halaby, chair of the AgriCapital Corp.

It's this "screwball" characteristic that makes predicting change difficult, but it's not what happens that's important but how one is structured to cope with what happens, he said during an interview at his office in New York. It's being structured to hit that pitch that will make agribusiness as open to entrepreneurial ventures in the years ahead as to consolidated, integrated, large operations, he said.

Structured to change, succeed

Agribusiness has witnessed considerable change in recent years, Halaby noted. In the 1960s and 1970s, he recalled, agriculture experienced "boom" expansion years as farmers took advantage of export markets and ready financing to buy land and increase production.

However, in the 1980s, agriculture struggled to access markets and compete abroad and with economic turmoil in the U.S., he said, and farmers found themselves in a fragmented, highly leveraged industry moving to rationalization. Bankers "panicked" and financing became extraordinarily limited, he said.

Companies from feed manufacturers and seed producers to farmers and livestock and poultry producers to packers and retailers fell to production/selling strategies that were financially ill-planned, costs that weren't recoverable, debt loads that exceeded equity and poorly prepared estate or ownership transitions, he said. All of this gave rise to consolidation, he said.

Now, in the 1990s, agribusiness is being driven by changes that will be equally influential, Halaby said, most significantly:

- The distance from producers to consumers is shrinking. Historically, a farmer sold his corn to the elevator or a producer sold his livestock to the sale barn and never cared for or knew what happened to his product from there, he said.

Now, producers must understand what consumers demand in food qualities and whether they are providing the animal or plant protein to produce that, he said — an understanding poultry producers have mastered and pork producers are rapidly rising to meet.

This distance shrinkage, though, means producers must work through coordinated or integrated structures or within processor relationships so that decisions from genetics to nutrition can be made "to get the maximum" from the animal or plant, he said.

He admitted such change does not sit

well with producers who are arguing for traditional farm operations and he said that he is not anti-family or anti-diversified farming. However, he referred to Winston Churchill's theory that "the affairs of state are long periods of turmoil that are interspersed by quick periods of peace," a thesis that he proposed fits well with agriculture. "We aren't talking about big corporations versus small farmers," he said, "but about participating in long periods of change."

Producers who are structured to enter coordinated systems will succeed, he said.

- The interaction between production and technology is increasing. Producers — to produce competitive, high-quality meat, milk and other protein — must embrace and incorporate technology, Halaby said, and producers have a responsibility to be sure that they and consumers of their products are comfortable with and educated in new technology. The 1960s and 1970s were peaceful, he said, returning to his Churchill theory, but events since then have ruled away holding onto status quo.

- The international marketplace is becoming larger and more open as economies strengthen throughout the world and trade barriers drop. Producers who are structured to operate across borders will succeed, he said.

- Capital is returning to agriculture, and producers who are structured to have the confidence of their lenders will have the capital adequacy to finance good projects and succeed, he said.

Halaby said that producers who are structured to change will be open to "the re-entrepreneurship of agriculture," which he explained means that there will be many new companies and production units established over the next several years.

He agreed his view runs counter to popular thesis that the industry — producers and suppliers — will continue downsizing into fewer and fewer hands. However, he said that as managers and producers realize how to achieve close consumer relationships, link production and technology, move to a global marketplace and access capital, there will be considerable "unconsolidation."

He said that domestic and multi-national companies will offer or spin out divisions they no longer want to concentrate on, opening up opportunities to entrepreneurs, investment organizations and management and employee teams to acquire those units and form new companies.

He suggested that these divestitures and spin-outs will especially occur within large organizations pursuing highly specialized, high-value businesses while carrying commodity-oriented, low-value properties that were acquired in previous structurings or, in fact, were a foundation business no longer suiting company strategies. He said that this activity fits most companies with agriculture units and that there will be a lot of opportunities to re-entrepreneur and unconsolidate agribusiness in the years ahead.

At the same time, he said, producers structured to change, will create niche operations to produce specialized fiber and food products or to serve or supply

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producers as well as other suppliers. He said that this activity fits demand from consumers and from more and new agribusinesses for high-quality, diversified, specialized products.

Agriculture re-entrepreneurship will also occur because of the accessibility of capital to support the event, Halaby said. Bankers and other sources financing agriculture today are more judicious than in the 1980s, he noted, but they also are less "transaction-oriented" and more "relationship-oriented" — tuned to producers' requirements for cash flows that are both seasonal and cyclical.

Furthermore, he said, capital that understands agriculture will not only be available to agribusinesses but financiers will be eager to underwrite new ventures. Agriculture capital in the future will appreciate the consolidation and unconsolidation phenomena, Halaby said, knowing that "both can go on forever." ■